United Nations E/2012/84

Economic and Social Council

Distr.: General
June 2012

Original: English

Substantive session of 2012
New York, 2-27 July 2012
Item 2 (c) of the provisional agenda*
High-level segment: annual ministerial review

Letter dated 25 June 2012 from the Permanent Representative of Uruguay to the United Nations addressed to the President of the Economic and Social Council

I have the honour to request that the report of the Latin America and the Caribbean regional preparatory meeting on the topic "Productivity, employment and social protection" be circulated as a document of the Economic and Social Council for consideration at its substantive session of 2012, under item 2 (c) of the provisional agenda (see annex). The meeting was held on 27 April 2012 in Montevideo in preparation for the annual ministerial review of the Economic and Social Council.

At the regional preparatory meeting, the reduction of exclusion through improvements in labour productivity and social safety nets and the issues of decent work and youth were examined as a contribution to the theme of the 2012 annual ministerial review, "Promoting productive capacity, employment and decent work to eradicate poverty in the context of inclusive, sustainable and equitable economic growth at all levels for achieving the Millennium Development Goals". Uruguay believes that the report will constitute a valuable contribution to the discussions in July in New York.

(*Signed*) José Luis **Cancela**
Ambassador
Permanent Representative

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Annex to the letter dated 25 June 2012 from the Permanent Representative of Uruguay to the United Nations addressed to the President of the Economic and Social Council

Report of the Latin America and the Caribbean regional preparatory meeting

2012 Annual ministerial review of the Economic and Social Council

Summary

In preparation for the annual ministerial review of the Economic and Social Council, which will focus on productive capacity, employment and decent work, a regional preparatory meeting on "Productivity, employment and social protection" was held in Montevideo, on 27 April 2012. It was hosted by the Government of Uruguay in cooperation with the Department of Economic and Social Affairs, the International Labour Organization (ILO) and the Economic Commission for Latin America and the Caribbean (ECLAC).

A diverse group of regional actors attended the meeting to discuss how to reduce exclusion by improving employment productivity and social safety nets and the issue of decent work and youth.

Key policy messages

The following are the key policy messages that emerged from the discussions.

The region continues to face significant challenges such as marked social inequality, youth unemployment and heterogeneity as regards productivity between different sectors of the economy and companies all of which impacts employment and wages. When discussing those challenges participants stressed:

- It is necessary to continue the macroeconomic policies that generate the necessary fiscal space to allow economic growth to produce more quality jobs and greater social protection. It also emphasized the importance of diversifying economic activities in order to reduce vulnerability to external shocks to a minimum.
- It is essential to move towards more structural and integrated approaches since productivity, employment and social protection are, to a large degree, interdependent.
- Sectoral policies that support innovation, capacity-building, investment and access to financing should promote more complete and integrated productive linkages.
- It is imperative to overcome the limitations of the contributory social protection system, in part by strengthening non-contributory schemes and, more broadly, by developing the idea of establishing a social protection floor.
- It is necessary to develop mechanisms to map the needs of the productive sector so as to make educational and training programmes more relevant.
- As regards youth unemployment it is necessary to combine short and long-term strategies and policy tools. Young people who, today, are unemployed or

have insecure jobs, are demanding immediate comprehensive answers that will combine access to training or the possibility of remaining in or returning to the educational system, with guidance and labour intermediation services and social protection mechanisms. In the long run the replies must take into account the transition from education to work, adolescence to adulthood and emancipation. Policies should focus on enabling young people to follow work paths that instead of beginning with employment or work at an early age would begin with education, followed by job training in the first stage of the trajectory on to decent work and subsequently be complemented by other provisions of an active employment policy.

- Greater momentum must be given to public-private partnerships to establish synergies at the national and regional level. Strengthening these partnerships will make it possible to move ahead with programmes geared to initial employment and to support the transition from education to work and boost entrepreneurship among young people. One specific way of doing this would be to support the establishment of networks of young people and organizations dedicated to the issue of youth employment.

- It is necessary to strengthen the youth employment network and to establish a high-level panel on youth employment with a regional chapter or movement. The initiative should make it possible to move forward on at least three fronts: first, by defining a general and comprehensive strategy for youth employment; second, by taking up and compiling a compendium of the experience acquired in this area in the various countries and the results thereof; third, by drawing up a draft regional youth employment programme.

- It is felt that deepening social dialogue and, in particular, collective bargaining is the key to — and a means of — achieving a variety of objectives. First, because it expands the possibility of establishing public-private partnerships on employment, productivity and social protection. Second, because it leads to a more equitable distribution of the fruits of growth and, third, because the diversity of views it provides constitutes a key contribution to the structural and comprehensive answers sought.

I. Introduction

1. In July 2012, the Economic and Social Council will hold its sixth annual ministerial review which will focus on "Promoting productive capacity and decent work to eradicate poverty in the context of inclusive, sustainable and equitable economic growth at all levels for achieving the Millennium Development Goals".

2. On 27 April 2012, a Latin America and the Caribbean regional preparatory meeting was convened by the Department of Economic and Social Affairs, the International Labour Organization and the Economic Commission for Latin America and the Caribbean; it was hosted by the Government of Uruguay.

3. A diverse group of regional actors from Governments and the United Nations system attended the meeting to discuss how to reduce exclusion by improving employment productivity and the social safety nets and the issue of decent work and youth. The meeting provided an opportunity for the countries of the region to

contribute to the annual ministerial review and to exchange best practices and lessons learned through two presentations and two round-table meetings.

II. Regional preparatory meeting

A. Opening meeting

4. At the opening meeting, Eduardo Brenta, Minister of Labour and Social Security of Uruguay, noted that the items to be discussed were not related to the current situation and were of great importance to Uruguay and the region. The South had learned its lessons regarding labour and had therefore experience to share with the North. One of the lessons learned was that the market does not solve all problems relating to labour and he cited, by way of example, the issue of youth unemployment. He said that public policies to tackle youth unemployment included training, labour intermediation and the creation of national systems focused on the young. He also emphasized the importance of collective bargaining as a way of improving working conditions and said that most workers in Uruguay were union members and that that had proved beneficial to them. He emphasized the importance of having a well-trained labour force in order to increase productivity and the importance of social protection in lessening labour informality and increasing productivity.

5. The Executive Director of the Office of the Director-General ILO Geneva said that the meeting was a good opportunity to influence global policy debates. She noted that the region had much to show the world about how to combat economic crises. Europe needed to turn towards Latin America and the Caribbean to see how to combat instability. She highlighted challenges with regard to employment in the region, including the quality of work, sector inequality and youth unemployment. On the latter subject, she said that an event would take place in May in Geneva aimed at incorporating the voice of young people in decision-making and the development of youth employment policies. With regard to social protection, the Director stressed that it had helped to mitigate the effects of the crisis and that — as mentioned in the "Bachelet Report" — social protection floors were important not only to prevent falls in income, but also to act as a basis for progress and economic growth. She also noted that the matter of social protection floors was closely related to the decent work agenda. She concluded by referring to events at which the region would have an opportunity to share its experiences with regard to development, which included the Group of 20 and Rio+20 summits in June and the Council meeting in July.

6. The Director of ECLAC, Montevideo Office, stressed the importance of economic growth in reducing inequality and, at the same time, the importance of reducing inequality in driving economic growth. He noted that increases in the productivity of the region's economies were needed to reduce gaps and address structural inequalities. In order to increase productivity and combat youth unemployment, capacity-building (human, productive and organizational) was also crucial. With regard to the issue of decent work, it was important to set out development strategies that included economic and social considerations. He also emphasized the importance of social protection not only in improving working life but also childhood and old age. He concluded by stressing that one of the lessons

learned from the economic crisis was the resurgence in the role of the State, but not in a manner that pitted "State against market", but rather in a manner where "State and market and society" joined forces to achieve development goals. The world needed to listen to Latin America and the Caribbean.

7. Desra Percaya, Permanent Representative of Indonesia to the United Nations and Vice-President of the Council, stressed that the issue of labour markets and social protection was of great importance for Latin America and the Caribbean as the labour markets were a vital link between external shocks and households. Social protection policies aimed at improving labour markets and vulnerable families' income could have significant positive effects. Promoting decent work for young people was a fundamental task among regional development efforts, because young people were disproportionately affected by unemployment and were overrepresented in the informal sector and among the working poor. Youth unemployment, underemployment and precarious employment had high social costs, inter alia in terms of lost human potential and production, higher welfare payments and declining tax revenues.

8. The Assistant Secretary-General for Policy Coordination and Inter-Agency Affairs (Department of Economic and Social Affairs) said that compared to other regions of the world, Latin America and the Caribbean had coped with the financial crisis in a commendable manner and that the region's governments should be applauded for their timely action using fiscal resources to revive their economies and minimize the drop in production. However, despite the fact that the economic slowdown had not been as significant as in other regions, Latin America and the Caribbean shared the world's employment challenges, notably, high unemployment levels, particularly among young people, women and rural populations, and the fact that a high proportion of employed workers were underemployed, badly paid and forced to accept precarious working conditions. The labour proposals made by the Secretary-General of the United Nations in his report for the annual ministerial review included: creating a high-level panel to discuss public job creation policies; creating a United Nations youth volunteers programme to strengthen the focus of United Nations programmes on youth employment; promoting public-private partnerships to boost production and foster employment; supporting micro and medium-sized enterprises; encouraging investment in the agricultural and rural sector; developing green economy road maps; integrating employment objectives into national strategic policies; and placing the issue of "full employment and decent work for all" on the agenda of the General Assembly.

B. First presentation: Reducing exclusion through improvements in employment productivity and in social protection networks

9. The Director of the Social Development Division, ECLAC, said that, to a large extent, the considerable inequality that characterized the region's distributive structures corresponded to a structural core that generated and reproduced gaps. This core had a sequence, namely: the structural heterogeneity generated and reproduced inequality via productivity gaps (where gaps in capabilities, networks and access to various assets became evident); the labour market was the link, the effects of structural heterogeneity were transferred towards that market and the inclusion-exclusion dynamic was established through stratified access to

employment; social protection replicated the stratification of the two previous spheres with their gaps, but also offered options to mitigate their effects.

10. The Director stressed that there were highly heterogeneous productive structures in the region. They were characterized by the considerable differences in companies' productivity; by the preponderance of product generated in high-productivity companies; by the preponderance of employment generated in low-productivity companies; and by the productivity gains aimed, for the most part, at the few employees in high-productivity companies.

11. Because of those highly heterogeneous productive structures, labour markets were extremely segmented. That was reflected in the gaps in income, capacities and protection. It was also reflected in the fact that large sectors of the population were unable to enter the productive sector (low female labour participation; unemployment among poor groups, women and young people).

12. It was argued that labour institutions could facilitate or obstruct the transmission of inequality. In Latin America, the still weak regulation, the dynamics of informality, flexibility and new labour organizational models had undermined the stability of jobs and helped to weaken unions.

13. Social protection in the region, the last link in the chain, had originally been designed in hopes of providing coverage for the entire population through the acquired rights of the head of the family — a man with a proper job. It was therefore not surprising that the classic equation of employment-social protection did not add up, since, in most countries, only a small proportion of the population was employed in medium- and high-productivity sectors and made social security contributions. That failure was even less surprising if one took into account that, as a result of many factors, unemployment and employment in low-productivity sectors was increasingly associated with larger households with lower incomes, young women with small children and groups that were less educated, poorer or more vulnerable to poverty.

14. That scenario presented a considerable challenge for the countries of the region. With regard to structural heterogeneity there was a need to foster: industrial development policies, opting for a "green" and inclusive model; policies that promoted technological innovation; support for small and medium-sized enterprises and their participation in the world economy; investment in new social sectors; and inclusive financing. With regard to the labour market, the Director referred to vital policies that included: recognizing labour rights (basic floor) and a minimum wage; strengthening unionization and collective bargaining; strengthening social dialogue; providing occupational training; simplifying procedures to access formal employment; recognizing skills formally; providing small and medium-sized enterprises with support; introducing unemployment insurance; providing labour market intermediation services; advocating the employment of specific groups (such as young people and women); establishing mechanisms to reduce gender inequality in retirement and pension systems; making transfers to the poorest sectors (particularly families with children and adolescents); and providing non-contributory access to transfers for vulnerable older adults.

15. The above should be implemented within a framework of sustained economic growth; fiscal pacts to raise the tax burden and invest in development and productive convergence, invest in social protection and ensure positive links with

employment; labour institutions that favoured formalizing employment and expanding the contributory scheme; care services to encourage greater female participation in low-income sectors; and an educational system that could level the playing field when seeking employment and raise the bar in terms of productive capacities.

C. Second presentation: Decent jobs and young people

16. The presentation, by Andrés Marinakis, International Labour Organization (ILO) Specialist in Labour Market Policies and Labour Institutions, was based on the document "Decent jobs and young people — Latin America", which was distributed to the participants together with some updated regional statistics.

17. Mr. Marinakis said that the economic growth of the region over the last decade had been very good, except for a brief interruption in 2009 owing to the international financial crisis. The sustained growth brought about a significant decline in the general unemployment rate, which in 2011 stood at 6.7 per cent. However, looking at the unemployment rate for young people compared to that of the population as a whole or to that of adults, it will be noted that they remained essentially constant (twice the overall rate and 2.8 to 2.6 times the adult rate), which would suggest that there are underlying structural considerations. The available data indicated that the picture is the same for the Caribbean countries.

18. However, certain aspects allow for a more dynamic reading of the job situation for young people. To begin with, the population projections by age bracket show that the region is currently at the crest of a demographic boom, with 104 million young people between the ages of 15 and 24. Going forward, children and young people are expected to represent a smaller proportion of the total population and to be outweighed by adults and the elderly. Moreover, in the age bracket defined as young significant transitions are taking place for instance, from school to the labour market, from being in a situation of dependence to assuming responsibility for generating income, or from being a child to becoming a parent. As young people move forward, they will encounter a series of risks at different stages in their lives that will challenge their ability and that of their families.

19. Consequently, the average figures used to usually portray the situation of young people between the ages of 15 and 24 mask big differences. For instance, 34 per cent of young people study full-time, but for those between the ages of 15 and 17 the percentage is 62 per cent, while between the ages of 18 and 24 it is only 20 per cent. Thirty-three per cent of young people work full-time, but in the 15-to-17-year age bracket only 12 per cent do, while in the next age bracket as many as 44 per cent do. Young people who both study and work show similar percentages, while those who neither study nor work represent barely 12 per cent of those between the ages of 15 and 17 but as much as 24 per cent of those between the ages of 18 and 24.

20. Today's young people have received more and better education than their parents did, and the educational level of women is now slightly better than that of men. Thus, exclusion from the educational system is no longer a predominantly female characteristic in the region. Nevertheless, it is clear that gender inequities persist when it comes to entry into the labour market. Among those who neither attend school nor work, there are more young women (28 per cent) than young men

(11 per cent) who cannot find a job. The region saw a small reduction in the school attendance gap per income bracket in the last 10 years, although the differences are still very significant. Also, the educational requirements for the current labour market seem to be much higher than they were in the past, requiring redoubled efforts to offer more and better education.

21. In the region, 6.7 million young people are unemployed, representing 44 per cent of all the unemployed. Some of the problems faced by young people when they look for work or find a job have to do with their lack of experience or with the nature of the first job they get, but other difficulties are a sign of a particular lack of security.

22. In almost all countries young people who have lost their jobs far outnumber unemployed young people looking for a first job, and this indicates a high turnover. To a certain extent this shows that it takes trial and error in the job market, rather than keeping to a strict educational or vocational path, to be able to work in one's chosen field. The most important thing for young people is therefore to hold a range of jobs that will allow them to realize their ambitions. Also, the wage differentials between young people and adults can be explained by the fact that young people are hired primarily for entry-level jobs. Still, in many cases employers may not be complying with the minimum wage rules, which would suggest that the jobs for young people are not very secure. This would be more serious in the rural sector, where young people earn much lower wages than in urban areas.

23. It is noteworthy that the percentage of wage-earning young people is much greater than the percentage of adult wage-earners, but that they are underrepresented among public employees, the self-employed and entrepreneurs. It appears to be necessary to develop many more mechanisms to facilitate their entry into those areas of the labour market. Among private-sector wage-earners, on the other hand, the dearth of employment contracts is an indicator of great insecurity, and the result is lower social security coverage for young people. About 60 per cent of young people are working without contracts in most countries in the region.

24. Throughout life there are a series of difficulties and insecurities that are eventually resolved for a certain proportion of young people. However, the transitions involved at each stage entail risks that leave some of them straggling and unable to settle into a decent job. Consequently, more risk-reduction policies are needed that facilitate a succession of decent jobs. Economic, social and labour policies with that aim in mind must be formulated. It is imperative to maintain a course of sustained economic growth, pursue social policies that attack poverty and exclusion, keep young people in the formal educational system longer and substantially improve the quality of education, and include measures that facilitate the transition from education to work, in the direction of education and entrepreneurship as well, since one cannot expect every single young person to enter the market as a wage-earner. At the same time as the region deals with these challenging structural transformations in the medium and the long term, it has to do more to develop more specific labour policies, such as training, intermediation in the labour market, systems of incentives for the hiring of disadvantaged young people, and the like.

D. First discussion: Productivity, employment and social protection

25. The first discussion was moderated by Hugo Bazzi, of the Ministry of Labour and Social Security of Uruguay. The representative of the Dominican Republic mentioned that unemployment in her country had increased, while the informal economy had grown. She said that there was a continuing reliance on active labour market policies to meet the challenges and that there had been particular emphasis on improving workforce preparation. Her country was endeavouring to develop entrepreneurship among young people.

26. The representative of Peru asked the speakers to go into greater detail with respect to specific policies for addressing structural gaps. Martin Hopenhayn of ECLAC stressed the importance of industrial policies in closing productivity gaps and referred to Brazil's promotion of its development bank as an example of a policy that could improve productivity. In order to close structural gaps it was important to develop a work force capable of meeting the needs of the productive sector. He emphasized the importance of productive linkages, citing Japan and Italy as examples of countries in which small- and medium-sized enterprises were linked to the export and productive sectors. By contrast, small- and medium-sized enterprises in the region were removed from the large companies operating in the export sector.

27. The representative of Trinidad and Tobago noted that social protection was not a residual policy but a fundamental part of development policy. Social protection was an important stabilizing factor in the aftermath of a crisis. His own country had a long history of social protection that currently included an array of activities, such as free educational programmes that sought to build the needs of the private sector into their curricula, programmes for the elderly, free textbook programmes, apprenticeships, as well as programmes to provide medicines, student loans and assistance for the unemployed.

28. The representative of Ecuador said that his country had seen major labour advances over the past five years. They included improvement in the quality of employment and implementation of four major programmes to promote entrepreneurship. However, important challenges still remained, inter alia the need to reduce the vulnerability of the poorest members of society and the fact that not all regions had made equal progress.

29. Juan Mailhos of the National Chamber of Commerce and Services of Uruguay called attention to the efforts made to promote social dialogue, with particular emphasis on linking small- and medium-sized enterprises to large ones.

30. The representative of Brazil spoke about her country's development bank and said that there was a special fund that supported the labour market, with a focus on activities of the development bank and labour market policies including training, unemployment benefits and credits for small- and medium-sized enterprises. Brazilian workers in vulnerable situations received assistance in the form of unemployment benefits, training and labour intermediation programmes.

31. The representative of Colombia said that in her country the Ministry of Labour had been reinstated and strengthened (it had formerly been a part of the Ministry of Health). The newly adopted Job Training Act included incentives for the formalization of jobs and had contributed to the creation of new businesses and jobs.

32. The representative of El Salvador spoke about her country's Action Plan for Youth Employment, based on the National Youth Policy, which sought to provide resources for municipal jobs, technical capacity-building, youth training and labour intermediation, as well as to promote entrepreneurship. Agreements had been signed with several institutions to assess the impact of the plan.

E. Second discussion: Employment and youth

33. The discussion was moderated by Mr. Alvaro Brunini of the Ministry of Labour and Social Security of Uruguay. At the outset Edgar Quispe Remon, Deputy Minister of Employment Promotion of Peru, emphasized the need for a long-term perspective in youth employment strategies, which took into account a worker's entire life cycle. Without disregarding the importance of short-term policies such as employment services or specific training programmes, he noted the importance of developing basic, multivalent competencies through an effort beginning in primary school and providing a solid base for subsequent educational and labour trajectories. He also pointed out that programmes for the young, like those aimed at other constituencies, must clearly respond to demand. Otherwise, there would be no real prospect of those populations ever having decent jobs.

34. Similarly, Mr. Brunini noted the importance of coordination between ministries of labour and education. A more clearly articulated common policy agenda between the two would help build a comprehensive, long-term perspective that took into account the transitional processes of young people. He also pointed out that the current favourable macroeconomic environment in the countries of the region opened a "window of opportunity" for closing existing gaps in youth employment.

35. Various examples were given of policies and programmes aimed at youth training and employment. The representative of Brazil mentioned the forms of support her country provided to ease the transition from education to employment. In particular she cited the experiment with apprenticeship contracts that allowed young people to complete their education through internships. Brazilian companies were currently required to offer one such internship for every seven employees on their official roster.

36. Uruguay was implementing a new programme that would allow young people to work for a year in public enterprises, in exchange for which they were required to complete their education. It was simultaneously developing and negotiating a new youth employment law intended to stimulate the employment of young people, to encourage them to continue their studies and to regulate internships and apprenticeship contracts.

37. The representative of El Salvador reported that the fourth stage of the nati ,nal youth employment plan was under way in that country; it included financial support for young people from poor families who worked for their local governments and offered them training opportunities. Other components of the plan included provision of public employment services such as information, guidance and labour intermediation, as well as the promotion of youth entrepreneurship.

38. With respect to the reality in the Caribbean, the representative of Trinidad and Tobago called attention to the cultural influence of the United States on his nation's

youth, which had two particularly negative consequences: youth emigration and the rise of criminal gangs. One way to respond to those problems would be to seek closer cooperation among the various ministries that could lead to innovative programmes offering young people more and better opportunities for education and employment. He also noted the need to promote the creation of networks not only among young people themselves but also between ministries and public bodies, even beyond the national level.

39. For his part, the ILO expert, Andrés Marinakis, called for the establishment of more public-private cooperation spaces, inter alia to promote youth employment and to broaden experience in the field of apprenticeship contracts, keeping in mind that the various policies (education, training, social protection and employment) designed to improve the youth opportunities must be coherent among themselves.

40. All participants said that the current levels of cooperation among countries of the region must be strengthened. It was agreed that the meeting should expressly state its support for the establishment of a high-level panel on youth employment. The participants felt that the panel should have a regional chapter, which would be responsible for three things: formulating a regional youth employment strategy; compiling a compendium of youth employment policies and good practices; and proposing a regional youth employment programme, a central feature of which would be to encourage the creation of cooperation networks among Governments, employer and worker organizations and young people themselves.

F. Conclusions and policy recommendations

41. At the closing meeting, Minister Eduardo Brenta, Ambassador Desra Percaya and the ILO Regional Director for Latin America and the Caribbean, summed up the day's discussion and emphasized the conclusions and policy recommendations which they would be taking to the High-level Segment of the Economic and Social Council for discussion. They included:

(a) Latin America and the Caribbean as a region is undergoing a process of significant progress as regards economic growth, employment generation, combating unemployment, broadening social protection and poverty reduction. Nevertheless, major challenges remain, such as marked social inequality, structural heterogeneity and income gaps. At this preparatory meeting, analysis concentrated on the challenges posed by youth unemployment — which is higher than unemployment among the general population — and heterogeneity in productivity among sectors of the economy and businesses, and their impact on unemployment and wages. A distinctive feature to be borne in mind when analysing and discussing productivity, employment and social protection is the significant progress that has been made in the region and the persistence of substantial challenges;

(b) When addressing those challenges, the regional preparatory meeting first of all stressed **the need to continue the macroeconomic policies that generate the necessary fiscal space to allow economic growth to produce more quality jobs and greater social protection, based on the premise that we must grow to equalize and equalize to grow. It also emphasized the importance of diversifying economic activities in order to reduce vulnerability to external shocks to a minimum**;

(c) There was also unanimity regarding **the need for more structural and integrated approaches** in light of the high degree of interdependence among productivity, employment and social protection. Coherence among the policies applied in these three areas is therefore essential in order to consolidate and extend the process of growth with decent employment and social protection for all;

(d) It was pointed out that heterogeneity in productivity among sectors, regions and businesses reflected, on the one hand, the significance of the informal sector in the economy. On the other hand, unlike other countries and regions, small and medium-sized enterprises barely engage in exports and their level of linkage with larger and more dynamic enterprises is also low. **Sectoral policies that support innovation, capacity-building, investment and access to financing should promote more complete and integrated productive linkages.** Accordingly, that path leads to the generation of quality employment opportunities and greater equality in access to the fruits of growth;

(e) Although it is acknowledged that economic growth in the region is generating more employment opportunities than in the past, even in the wake of the international financial crisis, it is understood that our countries will be affected in the future, to a greater or lesser degree, by the current crisis in developed countries or by other global recessions in the future. The countries of the region must **overcome the limitations of the contributory social protection system, in part by strengthening non-contributory schemes and, more broadly, by developing the idea of establishing a social protection floor**;

(f) It was acknowledged that **it is necessary to develop mechanisms to map the needs of the productive sector so as to make educational and training programmes more relevant**;

(g) **As regards youth unemployment it was stressed that short- and long-term strategies and policy instruments must be combined. Young people who, today, are unemployed or have insecure jobs, are demanding immediate comprehensive answers that will combine access to training or the possibility of remaining in or returning to the educational system, with guidance and labour intermediation services and social protection mechanisms**;

(h) **In the long run the replies must take into account the transition from education to work, adolescence to adulthood and emancipation.** Policies should focus on enabling young people to follow work paths that instead of beginning with employment or work at an early age would begin with education, followed by job training in the first stage of the trajectory on to decent work and subsequently be complemented by other provisions of an active employment policy;

(i) The transfer programmes being implemented in several countries of the region, conditioned on children remaining in the formal education system so as to extend their years of education before young people enter the employment market, share that same focus. As a result, one of the elements of the social protection floor is to lay the foundations of structural change in young people and to encourage them to remain in education;

(j) Many examples were presented that show that the countries of the region are taking this path of providing comprehensive responses that take people's life cycles into account, while addressing the urgent problems affecting youth today. In order to take better advantage of these experiences, **greater momentum must be**

given to public-private partnerships to establish synergies at the national and regional level. Strengthening these partnerships will make it possible to move ahead with programmes geared to initial employment and to support the transition from education to work and boost entrepreneurship among young people. **One specific way of doing this would be to support the establishment of networks of young people and organizations dedicated to the issue of youth employment**;

(k) Accordingly, and in the light of the need for continued United Nations efforts through the global youth employment network, participants fully supported the idea of proposing, at the upcoming annual ministerial review, **the strengthening of the global youth employment network and the establishment of a high-level panel on youth employment, with a regional chapter or movement**;

(l) Regionally, the above initiative should make it possible to move forward on at least three fronts: first, by defining a general and comprehensive strategy for youth employment; second, by taking up and compiling a compendium of the experience acquired in this area in the various countries, and the results thereof; and third, by drawing up a draft regional youth employment programme;

(m) **It was felt that deepening social dialogue and, in particular, collective bargaining, were the key to — and a means of — achieving a variety of objectives.** First, because they make public-private partnerships in employment and productivity and social protection more feasible; second, because they lead to a more equitable distribution of the fruits of growth; and third, because the diversity of views they provide is a key contribution to the structural and comprehensive answers sought;

(n) **Finally, it was established that respect for fundamental rights at work is the general framework guiding work in these fields.**

United Nations E/2012/85

Economic and Social Council

Distr.: General
9 July 2012

Original: English

Substantive session of 2012
New York, 2-27 July 2012
Agenda item 5
Special economic, humanitarian and disaster relief assistance

Note verbale dated 6 July 2012 from the Permanent Mission of the Arab Republic of Egypt to the United Nations addressed to the Executive Office of the Secretary-General of the United Nations

The Permanent Mission of the Arab Republic of Egypt to the United Nations presents its compliments to the Executive Office of the Secretary-General of the United Nations and has the honour to enclose herewith the text of the Chair's summary adopted by the Conference on the Urgent Appeal for the Sahel Region that was held at Geneva on 29 June 2012 on an Egyptian initiative (see annex). In this context, Egypt affirms its readiness to contribute in any future movement by the international community to provide humanitarian assistance to the African countries in the Sahel region. In this regard, the Mission would like to inform you that it has also circulated the annex to the office of the President of the General Assembly, and the office of the President of the Economic and Social Council, to be circulated as an official document of this year's substantive session of the Economic and Social Council, for consideration in the Humanitarian Affairs segment.

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Annex to the note verbale dated 6 July 2012 from the Permanent Mission of the Arab Republic of Egypt to the United Nations addressed to the Executive Office of the Secretary-General of the United Nations

Conference on the Urgent Appeal for the Sahel Region, held on 29 June 2012 at Geneva

Chair's summary

1. The African Group of Ambassadors, in association with the Office of the United Nations High Commissioner for Refugees (UNHCR), the International Organization for Migration (IOM), the United Nations Office for the Coordination of Humanitarian Affairs, the World Food Programme (WFP), the Food and Agriculture Organization of the United Nations (FAO), the United Nations Children's Fund (UNICEF), the World Health Organization (WHO) and the United Nations Development Programme (UNDP), organized the Conference on the Urgent Appeal for the Sahel Region on 29 June 2012.

2. The Conference has been the initiative of the African Group to draw more of the international community's attention to one of the most severe and complex situations.

3. All participants in the Conference agreed that the humanitarian crisis in the Sahel region affects all countries in the region that are already weakened by the impact of the food crisis, owing to a severe drought cycle compounded by the current political crisis in Mali and the environment of insecurity created by rampant activism of separatist terrorist groups and drug, small arms, illicit products and human beings' trafficking networks.

4. The concerned countries in the Sahel region have stressed that, owing to the current alarming situation, and despite their limited resources, they have made considerable efforts on the political, security and financial fronts to help to mitigate the impact of this crisis throughout the region, including the hosting of a greater number of Malian and other refugees, as well as the endeavour to establish structures for the delivery of humanitarian assistance to affected populations, in coordination with the various humanitarian agencies and actors. Furthermore, several countries, including neighbouring countries to the Sahel region, have also demonstrated a high sense of solidarity with the countries of the Sahel, even before the Mali crisis, notably by providing significant humanitarian aid, in terms of food and medicine, as well as technical assistance and expertise, especially in the field of agriculture and combating the migratory locust.

5. It has been recognized that both the Economic Community of West African States (ECOWAS) and the African Union have reacted fairly quickly by creating a Support and Follow-up Group on the Situation in Mali, currently endeavouring to find a political solution to the crisis in Mali, in collaboration with the United Nations, with full respect for the unity and territorial integrity of Mali. A mediation process is conducted by Burkina Faso with the objective of achieving a political resolution of the conflict. This approach would specifically focus on the root causes of the crisis in the Sahel, in particular in terms of security and development. In the same vein, the Community of Sahel-Saharan States (CEN-SAD) gathered in Rabat

on 11 June 2012 and called, in their final declaration, for the adoption of a comprehensive approach of solidarity with the Sahel and for achieving regional security and sustainable development in the region, as one of the main fields of action of CEN-SAD.

6. The humanitarian agencies and actors have raised several concerns regarding the alarming humanitarian situation in both the short and long terms. FAO highlighted that food insecurity and malnutrition are permanent features of the socioeconomic situation and that the countries of the region are highly dependent on agriculture for their economic growth, employment and income generation for rural communities and for individual livelihoods. However, the agricultural sector has historically underperformed, and agricultural activities in humanitarian response plans are chronically underfunded. WHO stressed the health dimension of malnutrition, as most vulnerable people, mainly children under 5, die of medical complications. At the same time, some preventable diseases are more severe and deadly, while health systems in the Sahel region are among the weakest in the world. From its side, UNHCR displayed the dramatic situation and challenges pertaining to refugees and internally displaced persons already existing in many countries of the region that have been worsening in the light of the influx of a large number of Malians uprooted from their homes to neighbouring countries. Furthermore, access to humanitarian assistance is hampered by the volatile security environment in some parts. Also, the financial requirements to protect and assist the refugees remain very limited and will become critically stretched and stressed as more displacements occur. UNICEF has underlined the importance of shaping a better future for the children's lives, and it is, therefore, required to enable governments and communities to strengthen their capacity to protect their children through various means, including investing in basic social service provisions. The Office for the Coordination of Humanitarian Affairs, from its side, highlighted the importance of its role in ensuring that efforts in the nine affected Sahel countries are well coordinated and that progress can be monitored. It is, therefore, the role of the newly appointed Regional Humanitarian Coordinator to support Resident and Humanitarian Coordinators to build community resilience, prioritize resources and address specific challenges such as security and access, notably through collaboration with regional organizations, peace and security stakeholders and the United Nations Office for West Africa. Also, the related appeals that were launched over the past months present a strategic approach to address needs in each individual country.

7. Most participants have recognized that the impact of this crisis may extend beyond the borders of Mali and the Sahel region, indeed constituting a genuine security threat for the entire North African region, as well as southern Europe. Hence, the need for greater media, political and financial mobilization of the international community with a view to fostering a collective, coordinated response to the various challenges lying ahead.

8. While expressing appreciation to all donors, the African Group has demonstrated the need for more efforts of these stakeholders, since the humanitarian assistance and the international attention to all aspects of the current situation turned out to be insufficient, given the magnitude of the crisis in the Sahel region on all fronts.

9. Many countries mentioned several initiatives to help the region, such as the Partnership for Resilience in the Sahel, launched by the European Commission in June 2012, the zero hunger policy launched at the United Nations Conference on

Sustainable Development, held in Rio de Janeiro, Brazil, in June 2012, and the 2007 Organization of the Islamic Conference (OIC) Doha International Donors' Conference on Consolidating Food Self-Sufficiency in the Niger.

10. It is therefore recommended that there is a need to:

(a) Promote greater awareness among the general public and the international community of the seriousness of the situation in the Sahel;

(b) Support the consolidated appeals process for 1.6 billion for the Sahel region;

(c) Mobilize more assistance by the international community along with an effective and coordinated response to the grave humanitarian situation in the Sahel;

(d) Think beyond the current situation and support the efforts aimed at bringing the causes at the origin of this situation to an end;

(e) Promote and build resilience at all levels, from the community up to the national and regional levels;

(f) Pursue a twin-track approach, namely, to deliver an urgent crisis response to those severely affected by hunger right now, while at the same time investing in longer-term solutions;

(g) Take rapid action to prevent further deterioration of the food security situation. Agriculture and livestock, like other areas, are time sensitive and, especially in this region, very seasonally dependent. It is crucial to act now to support the farmers during the ongoing lean season, and to support the preparation of the off season;

(h) Strengthen preparedness interventions immediately to prevent unnecessary disease and death, as the rainy season is coming soon;

(i) Support national ownership, aligning international support with existing national and regional efforts and ensuring effective coordination;

(j) Continue building our response to boost the capacity of humanitarian actors on the ground and to make additional funding available;

(k) Ensure that humanitarian aid and assistance reach populations in need directly. Any misuse of humanitarian assistance by non-state actors must be strongly condemned;

(l) Maintain the funding momentum urgency to emphasize the link between humanitarian action and development programming, and to strengthen the capacity of governments to be prepared for future crisis.

United Nations E/2012/86

Economic and Social Council

Distr.: General
9 July 2012

Original: English

Substantive session of 2012
New York, 2-27 July 2012
Agenda item 2 (b)
High-level segment: Development Cooperation Forum

Letter dated 29 June 2012 from the Permanent Representative of Luxembourg to the United Nations addressed to the President of the Economic and Social Council

I have the honour to transmit herewith the report of the High-level Symposium on the theme "Working together to increase the development impact of aid". The Symposium was held in Luxembourg on 18 and 19 October 2011, in preparation for the 2012 Development Cooperation Forum (see annex).

I would be grateful if the present letter and its annex could be circulated as a document of the Council under agenda item 2 (b).

(*Signed*) Sylvie **Lucas**
Ambassador
Permanent Representative

12-41896 (E) 240712

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Annex to the letter dated 29 June 2012 from the Permanent Representative of Luxembourg to the United Nations addressed to the President of the Economic and Social Council

Preparing for the 2012 Development Cooperation Forum: report of the High-level Symposium on the theme "Working together to increase the development impact of aid", held in Luxembourg on 18 and 19 October 2011

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I. Introduction

1. The 2005 World Summit mandated the United Nations Economic and Social Council to convene a biennial high-level Development Cooperation Forum to "review trends and progress in international development cooperation, including strategies, policies and financing; promote greater coherence among the development activities of different development partners and strengthen the normative and operational link in the work of the United Nations".[1]

2. The Forum aims to promote and improve international development cooperation to attain the internationally agreed development goals, including the Millennium Development Goals. It provides a platform to enhance dialogue among all stakeholders to find effective ways to support this process.[2]

3. The next Forum will be held on 5 and 6 July 2012, in New York. To facilitate dialogue among development cooperation actors and States Members of the United Nations, the Department of Economic and Social Affairs of the United Nations Secretariat has supported the organization of high-level symposiums in 2011 and 2012. The Luxembourg Symposium was the second of three preparatory events for the 2012 Forum. The first Symposium was held in Mali in May 2011, on how aid can achieve development results in the long run. The third Symposium will be held in Brisbane, Australia, on 14 and 15 May 2012, on the nexus of development cooperation and sustainable development.

II. Objectives of the Luxembourg High-level Symposium

4. The Symposium was held against the backdrop of the continuing economic and financial crisis. It was a time when concerns about the risk of a double-dip recession in developed countries were high, and when there was a perceived need for more effective action in major economies to put the world on a path to economic recovery. It was also a time when expectations about future trends in official development assistance were grim.

5. The Symposium aimed to better understand how best to maximize the impact of aid. It focused on how to use aid to leverage other sources of development finance that are most conducive to poverty eradication and the realization of the internationally agreed development goals. The various sessions and breakout groups enabled participants to exchange lessons learned. This led to lively discussions on how to use aid to broaden access to inclusive financial services, promote domestic revenue mobilization and attract foreign direct investment.

6. The Symposium also debated the experiences of developing countries in promoting more coherent management and use of both aid and other development finance, notably domestic and foreign resources. It also reflected on how to include all

[1] More information on the 2012 Forum and its preparations are available from: http://www.un.org/ecosoc/newfunct/2008dcf.shtml and http://www.un.org/ecosoc/newfunct/preparations.shtml.

[2] The Doha outcome document recognized the important contribution of the Development Cooperation Forum in its efforts to improve the quality of official development assistance and to increase its development impact. It also mandated the Forum to review more systematic and universal ways to follow the quantity, quality and effectiveness of aid, giving due regard to existing mechanisms (see General Assembly resolution 63/239, annex).

relevant actors in national and sectoral reviews of aid policies and commitments — with a view to enhancing the impact of aid.

7. A common theme running through the discussion was the need to maintain the volume of aid at a level commensurate with the challenges faced by developing countries and consistent with promises made.

8. The Symposium was attended by approximately 150 participants, representing the wide spectrum of development actors, from Governments to parliamentarians and from non-governmental organizations (NGOs) to the private sector, and local authorities. The discussions were frank and lively. They were held under Chatham House Rules. Key messages from the discussions are highlighted below.

9. The recommendations of the Luxembourg Symposium will serve as a basis for discussions at the 2012 Development Cooperation Forum. The discussions on the catalytic role of aid also contributed to the preparations for the Fourth High-level Forum on Aid Effectiveness, to be held in Busan, Republic of Korea, in November and December 2011.

III. Key messages from the Symposium

10. The following key messages emanated from the Symposium:

(a) **Aid may be used to mobilize other development finance conducive to development**:

- The discussion of how to maximize the development impact of aid should not take place in a vacuum. There is a need to more aggressively take into consideration the political economy dimension
- Whenever public money is used to leverage private funding, it is critical to ensure that it leads to concrete and measurable development outcomes
- If a project appears sustainable in the long term, guarantees, soft loans and equities should be used to finance those projects rather than precious and scarce aid money. At the same time, the current debt sustainability frameworks should be reviewed so that countries are not pushed into debt distress
- Some felt that multilateral development banks should put a greater emphasis on domestic resource mobilization rather than focusing on foreign direct investment
- Better harnessing the potential of innovative sources of finance is one way to afford developing countries the policy space necessary to conduct countercyclical policies

(b) **Many lessons have been learned on how to support inclusive financial sectors**:

- Financial inclusion should not be seen as an end in itself, but as one element among many others that may contribute to the achievement of the Millennium Development Goals
- Inadequate access to microfinance has implications for the real economy. It leads to a suboptimal amount of investment and job creation

- At the national level, public policy interventions on the supply side and on the demand side, as well as measures targeted at the financial sector as a whole, are necessary to ensure access, usage and impact, three key elements of financial inclusion

- Important measures are called for to address market failures; and there is a need to further develop supporting structures for the financial sector, as well as capacity-building frameworks for financial service providers

- Public funds can leverage large amounts of private (capital market) funds for the support of inclusive financial sectors; and public and private interests can be successfully brought together in innovative partnerships

- At the global level, key principles have been established for building inclusive financial sectors

- The 2006 "Blue Book" *Building Inclusive Financial Sectors for Development*[3] paved the ground for many present and future global initiatives

- The evidence about the development impact of microfinance supported by aid is currently mixed. There is a need for more analysis to demonstrate that financial services are really supporting the achievement of the Millennium Development Goals

(c) **Domestic resource mobilization is at the centre of resilience**:

- Domestic revenue mobilization should be an integral part of discussions on effective development cooperation at global level

- Tax reform is a main source of domestic finance and a powerful tool to reduce aid dependency. It needs to be visibly supported and developed by senior government officials

- More long-term external support is needed for strengthening national tax systems to raise nominal tax revenues. Such support should be demand driven, aligned to national priorities and well coordinated with all relevant actors. It should go hand in hand with broad-based political dialogue on tax issues and the functioning of tax systems

- To demonstrate the positive impact of paying taxes, government services for the most vulnerable populations must improve. It is vital that revenues mobilized through taxation clearly contribute to the achievement of international and national development goals

- National Governments should also put the spotlight on tax evasion

- There is great scope for increasing coherence between policies related to foreign direct investment and those related to domestic resource mobilization. Governments need to strike a balance between taxing large taxpayers and multinational corporations and other segments of taxpaying populations

[3] United Nations publication, Sales No. E.06.II.A.3.

(d) **Using aid to catalyse foreign direct investment entails both opportunities and risks**:

- Private investment is critical to expand the revenue base of developing countries and promote their financial independence. Developing countries, however, face considerable challenges in attracting sufficient private flows and ensuring that they contribute to national development objectives, such as job creation, sustainable growth and poverty eradication
- Mobilizing private investment/foreign direct investment to promote development entails opportunities but also risks
- A range of lessons have been learned in the past 30 years on how best to use aid to attract private investment, including foreign direct investment, that contributes to poverty reduction and inclusive growth
- Aid should be used to mitigate the risks/costs for private investors and to improve the overall investment climate to attract all kinds of investment. It should, however, not turn into a form of subsidy for foreign direct investment at the expense of the host country or into another form of tied aid
- At the same time, strategies to use aid to attract foreign direct investment need to link private investment incentives, on the one hand, and the national economy and national development goals of developing countries, on the other
- The use of aid as a catalyst for foreign direct investment should be accompanied by a proper regulatory framework and regular country-level reviews of the impact of such investment on the host country's economy as compared to more broad-based forms of investment
- Domestic private investment is more effective and sustainable than foreign direct investment in promoting national development

(e) **Capacity-building is needed to promote more coherent management and use of financing at the country level**:

- Managing various financial flows to maximize their development impact involves understanding the diverse incentives, modalities and time frames governing such flows
- Priority should be given to improving the capacity and public finance systems of recipient countries in managing various financial flows
- National development strategies, including partnership policies and frameworks, are important tools for ensuring the coherent management of all kinds of financial flows. They should ensure that all actors work together and use national systems. An exit strategy is also essential. Stakeholders must work together to ensure that these strategies and policies achieve results
- Both donors and recipients should "do their job well". Donors should accelerate the division of labour and prioritize budget support. Recipients should align their policies with development objectives

(f) **Mutual accountability is increasingly seen as critical to maximizing aid results**:

- Mutual accountability between programme countries and their development providers is gaining traction in the political debate on the results and impact of aid. It should become an integral part of results-oriented development planning at the country level. Yet, progress in developing effective mutual accountability mechanisms remains disappointingly low
- Aid policies and performance assessment frameworks can be a major incentive for progress in honouring commitments. This is particularly true if they include individual targets for providers and programme countries and build on national development strategies
- High-level, inclusive multi-stakeholder platforms and accessible databases on aid are equally critical
- An injection of resources is needed to scale up information systems, monitoring and evaluation capacity, and country leadership with regard to analysis, consultation and negotiation
- At the same time, accountability and reporting structures need to be simplified for programme countries. The number of indicators against which recipients are being assessed needs to be reduced
- "Beyond aid" issues affecting development should also be better addressed in mutual accountability mechanisms
- Peer learning at the country and regional levels will be critical in the coming years. So far, structured South-South exchanges of lessons learned among developing countries have been effective in improving mutual accountability processes
- At the global level, the Development Cooperation Forum should further strengthen its position as the global apex body for mutual accountability. Dialogue structures need to be truly inclusive.

IV. Detailed summary of panel discussions at the Symposium

A. Aid may be used to mobilize other financial flows conducive to development

11. This panel discussed ways of: (a) effectively using aid to leverage other sources of development finance; and (b) ensuring the continued focus of development cooperation on poverty reduction and the achievement of the Millennium Development Goals. Initial presentations were made by Zambia, the United States of America and the European Network on Debt and Development (EURODAD).

Background

12. Closing the "Millennium Development Goals financing gap" is essential to achieving the Goals by 2015, as is maximizing the development impact of aid. One factor limiting the development impact of aid is that, currently, aid is not

sufficiently allocated on the basis of needs and structural vulnerabilities. Nonetheless, given its focus on the Goals and the social sector, aid has been targeted at the poorest, which is not always the case of other sources of development finance.

13. While there has been a sharp increase in the absolute quantity of aid, aid dependency — namely, the proportion of government spending that comes from aid — has fallen considerably in the poorest countries. Reduced aid dependency can help countries to increase their fiscal and policy space and empowers them to design their own country-owned and country-led development strategy by shielding them from the volatility of aid flows. Where used effectively, aid itself has played an important role in reducing aid dependency. It has helped to mobilize additional resources by encouraging higher taxation, savings and investment, including by the poorest, and helped to accelerate growth.

14. In many developing countries, aid is also now dwarfed by other financial resources, such as remittances, foreign investment, bank loans or bonds and from domestic sources, such as tax revenue and domestic savings investment and loans. Innovative sources of finance are also playing an increasingly important role. Foreign capital can make an important contribution to development. Where foreign direct investment forges linkages with the wider local economy, a positive impact on development and the achievement of the Millennium Development Goals can be observed. South-South foreign direct investment can be particularly effective in forging such linkages.

Key challenges and success factors

15. **The question of how to maximize the development impact of aid should not be discussed in a vacuum**. There is a need to more actively take into consideration the political economy dimension. It is important to acknowledge the potential conflict between a developing country focus on country ownership and a donor country focus on development results assessed against global targets.

16. **The focus should be on country ownership**, as established in the high-level forums on aid effectiveness (Paris, Accra and Busan). This implies supporting countries in realizing their chosen development path. To secure continued funding, donors frequently pursue highly targeted aid programmes with clearly defined global goals and targets. These tend to lack country ownership and may be poorly integrated into countries' national strategies.

17. **Aid predictions for the coming years are sobering**. Despite the fact that development aid reached an all time high in 2010, only a handful of countries have met or even exceeded the United Nations official development assistance target of 0.7 per cent. In addition, there is an increasing bilateralization of aid.

18. **There is an urgent need to address the issue of aid orphans**. The proposal of the European Commission to give priority to countries with the greatest needs and vulnerabilities is welcome. It was pointed out that, to make real headway, an analysis of the political economy would be needed.

19. **Development assistance often comes with policy advice attached**. Conditionalities remain prevalent, in particular in the area of technical assistance. Regulations and standards should be adopted for ensuring a minimum standard for public private partnerships.

20. **Current funding modalities should not push countries into debt distress**. There is a trend to use blended funding and leverage aid in order to stretch out ever scarcer aid monies. To ensure that countries are not being pushed into debt distress, there was a call to review the current World Bank/International Monetary Fund (IMF) debt sustainability framework to ensure that countries servicing their debt will, at the same time, be able to make the necessary investment to achieve the Millennium Development Goals.

21. **Private investment needs to be sustainable over time.** On the increased use of public money to leverage private funds, it was pointed out that blending aid and loans might be suitable for private sector lending. If the long-term sustainability of a project appears ensured, guarantees, soft loans and equities rather than precious aid should be used to finance it.

22. **A more rigorous assessment of the development impact of mobilizing private investment is needed**. A World Bank report which assessed all projects of the International Finance Corporation found that more than half could not prove that they are delivering development outcomes. There is a need for developing tools to ensure that the development impact is not only higher but also clearly measurable.

23. **Developing countries should be supported in their efforts to strengthen their capacity to negotiate fair investment contracts**. Developed countries should adopt investment rules that promote responsible investment.

24. **Multilateral development banks should put a greater emphasis on the mobilization of domestic resources rather than focusing on foreign direct investment**. Recent experience has shown the risks associated with unregulated financial markets. There was a call for a greater allocation of funds to support domestic investment, which currently is an orphan in the portfolio of several development banks.

25. **The importance of promoting an effective tax system as a key element in the generation of domestic revenue was highlighted**. There is an urgent need to curb the $1.3 trillion in illicit capital outflows from developing countries each year. The provisions of the Organization for Economic Cooperation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Transactions and the United Nations Convention against Corruption should be effectively enforced.

26. **Countries need to be aware of all of the funds available to them for development** — both on-budget and off-budget. This would help to ensure that development is country-owned and country-led. It is also important to include parliaments and donors in aid management strategies. Rwanda was cited as a successful example.

27. **Better harnessing the potential of innovative sources of finance is one way to afford countries the policy space necessary to conduct countercyclical policies**. In its new communication, the European Commission proposed to allocate a higher share of aid to innovative mechanisms of financing with significant potential for revenue generation, including through blending and other risk-sharing mechanisms.

28. In terms of aid allocation, one participant suggested that a distinction should be made between the countries that have put in place the necessary policies, systems and frameworks, thereby making the achievement of the Millennium Development

Goals a possibility in the future, and those countries that did not undertake such measures and that hence might never achieve the Goals.

B. Many lessons have been learned on using aid to broaden access to inclusive financial sectors

29. This panel discussed ways to maximize the impact of aid on promoting pro-poor, inclusive financial systems and sectors, with a particular impact on microcredit, microsavings and microinsurance.

30. Presentations were made by representatives of Burkina Faso, Luxembourg and the United Nations Capital Development Fund and by an independent expert. Panellists and participants then shared policies and practices, identified challenges and suggested solutions.

Background

31. Today, more than 2.5 billion people worldwide lack access to regular and affordable financial services. This deprives them of opportunities to invest, raise or stabilize their incomes and diversify their assets, preventing them in turn from reducing and mitigating their vulnerability.

32. The Monterrey Consensus on Financing for Development[4] recognizes the importance of inclusive financial sectors. It states that "microfinance and credit for micro-, small and medium-sized enterprises [...] as well as national savings schemes are important for enhancing the social and economic impact of the financial sector". In 2012, insurance and remittances, as well as many other innovative financial services, might be added to that list.

33. The past years have seen an exponential increase in the amount of aid devoted to financial inclusion. A study by the Consultative Group to Assist the Poor shows that, in 2010, more than $13 billion was committed for this purpose by international donors and investors, with an increase of $1 billion per year.

34. With this trend, it has become all the more important to provide evidence about the development impact of aid-supported microfinance. Currently, that evidence is mixed. There are indications that microfinance may have benefited people with entrepreneurial skills and those around or above the poverty line, rather than the poorest people.

35. The example of Burkina Faso, which included microfinance as a key tool in its poverty reduction strategy, illustrates the potential of microfinance. The membership of Burkina Faso in the West African Economic and Monetary Union has helped the country to create an enabling environment. Since 1995, the microfinance sector has experienced a remarkable growth, accompanied by a special effort to reach out to the most vulnerable and poor people. Despite this impressive progress, major challenges remain. Better supporting structures for the financial sectors and more capacity-building frameworks for financial service providers are needed.

[4] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

36. The experience of Luxembourg shows that public funds can leverage huge amounts of private funds for microfinance and for other initiatives. Public-private partnerships have been at the heart of this success. Luxembourg has continuously established links between various national ministries, NGOs and private actors in order to foster collaborations in the domain of inclusive finance, and microfinance, more specifically. One example is the Luxembourg Microfinance and Development Fund, a commercial microfinance investment vehicle that leverages funds from foreign investors to finance specialized lower-tier microfinance institutions in Africa, Asia and Latin America. Another example is the Alliance for a Green Revolution in Africa, an initiative that leverages funds from local investors, and especially local banks, for the financing of innovative agricultural projects in Africa. Today, one third of all commercial microfinance investment vehicles are registered in Luxembourg, with assets under management of over $3 billion.

37. The following key messages emerged from the debate:

Key challenges and success factors

38. **Financial inclusion should not be seen as an end in itself, but as one element among many others that may contribute to the achievement of the Millennium Development Goals**. Financial inclusion and microfinance seem to have the potential of helping people in developing countries to better manage their cash flows and risks, to reduce their poverty and to cope with their vulnerability.

39. Encouraging individual success stories exist, and microfinance seems to have important implications for the real economy of developing countries, as it affects the overall level of investment and job creation. However, the sustainability and outreach of inclusive financial service providers remain important challenges, and incidences of the over-indebtedness of clients have become more common. So, the evidence of the true development impact of microfinance remains mixed, and there clearly is a need for more analysis to prove that financial inclusion supports the Millennium Development Goals.

40. **At a national level, public policy interventions on the supply side and on the demand side, as well as measures targeted at the financial sector as a whole, are needed to ensure access, usage and impact, which are the key elements of financial inclusion**. Financial inclusion means the opportunity to access financial services, which requires a bank branch, an automated teller machine or some other physical point of sale. Furthermore, no matter how dense and well-designed the financial infrastructure of a developing country, in order to ensure financial inclusion, people also need the capacity and thus the education to fully understand the terms and conditions, and the risks and costs, of financial services. And even if proper usage of credit, savings, insurance and other financial services is given, for financial inclusion to be fully realized, there still need to be positive effects, namely, an impact on the well-being of individuals or of the society as a whole. Financial inclusion thus requires national public policy interventions on the supply side, mainly affecting access, and on the demand side, mainly affecting usage, as well as measures targeted at the sector as a whole, mainly influencing the impact of inclusive financial services.

41. **At the global level, key principles have been developed for building inclusive financial sectors**. The fact that the United Nations has a specific convening power for supporting and strengthening inclusive financial sectors became especially

clear, when, in 2005, the International Year of Microcredit, the United Nations Capital Development Fund and the Financing for Development Office of the Department of Economic and Social Affairs of the Secretariat launched a consultative process on financial inclusion, coordinated by a group composed of the World Bank, IMF, the International Labour Organization and the International Fund for Agricultural Development, and supported by many other financial sector experts. As a major part of this process, a series of multi-stakeholder consultations were organized in Africa, Asia and Latin America, culminating in a Global Meeting on Building Inclusive Financial Sectors for Development and in the publication of the "Blue Book", containing key principles for financial inclusion.

Policy solutions and suggestions

42. **Important measures are called for to address market failures; and there is a need to further develop supporting structures for the financial sector, as well as capacity-building frameworks for financial service providers**. Supply-side interventions to improve access to inclusive financial services can consist in more direct actions, such as the creation of government banks, development finance institutions and apex funds; but they can also consist in more indirect actions, such as the establishment of an enabling environment for the development of inclusive financial systems and for the provision of inclusive financial services. In that context, well-functioning infrastructures, adjustments in the regulation and supervision of the financial system, the elimination of barriers to market entry, or smart subsidies, as well as fiscal sanctions and incentives for inclusive financial services providers can play an important role. Demand-side interventions to improve the usage of inclusive financial services focus more on financial education and consumer protection, and include awareness-raising campaigns, financial literacy trainings and the like.

43. Finally, measures improving the impact of inclusive financial services especially concern the development of supporting structures for the financial sector, as well as of capacity-building frameworks for inclusive financial services providers. Actions that increase transparency within the sector and that allow for a better exchange of data and other information between inclusive financial service providers also play an important role here.

44. **Public funds can leverage large amounts of private (capital market) funds for the support of inclusive financial sectors; and public and private interests can be successfully brought together in innovative partnerships**. Successful collaborations in the domain of inclusive finance generally, and in the domain of microfinance more specifically, can be realized by continuously establishing and reinforcing links between national ministries, civil society organizations, and private actors. In particular, where commercial interests are related to development outcomes, innovative public-private partnerships can be a promising path. The various providers of inclusive financial services should, however, carefully assess the comparative advantages and disadvantages of the various supporting and funding opportunities available to them.

45. **The 2006 "Blue Book" *Building Inclusive Financial Sectors for Development* paved the ground for many global initiatives**. The "Blue Book", published in the framework of the United Nations global consultative process on financial inclusion, established key principles for supporting and funding inclusive financial sectors worldwide. Furthermore, it paved the ground for many later initiatives, such as the

"Global Partnership for Financial Inclusions" by the Group of Twenty, the Alliance for Financial Inclusion, the Consultative Group to Assist the Poor and the International Finance Corporation. The need for continuing multi-stakeholder exchanges and joint, well-coordinated efforts for building inclusive financial sectors, remains unquestioned, however.

C. Domestic resource mobilization is at the centre of resilience

46. Tax reform is a main source of domestic finance and a powerful tool for reducing aid dependency. It is therefore an increasingly attractive area for developing countries and donors alike. Improving tax policy and administration is also important for governments to improve their delivery of services and their accountability to their citizens. It is receiving mounting interest at a time when fiscal austerity is increasing in donor countries and when ever-growing importance is attached to sound public finances.

47. Germany, Uganda and ActionAid made short presentations. This was followed by an interactive debate moderated by the former President of the North-South Institute. At the end of the panel, a consultant from Nathans Associates identified key findings from the discussion.

Background

48. Mobilizing domestic resources gained traction through the financing for development process. It is also being addressed by OECD and the European Commission, including through their efforts to eliminate tax havens. The fundamental purpose of taxation is to raise revenue effectively, efficiently and fairly in order to finance public goods and services for accelerating progress towards achieving the Millennium Development Goals. Today, challenges are well understood. They show a lot of commonalities across countries, despite the fact that specific country contexts have determinant impacts on tax reform.

49. Countries with a strong track record in reducing their aid dependency often have efficient tax collection systems. These are a centrepiece of their development strategy. Champions in tax mobilization are also among the best performers on development effectiveness. The value of their monthly tax collections exceeds initial investment by far.

50. Despite the potential of strengthened tax policies and administrations, only a few donors provide long-term support in this area. They usually focus on very specific areas of interest or broader reform of public financial management. Donors report mixed results of their engagement in terms of raising nominal tax revenues.

Key challenges and success factors

51. **Reforming tax systems is closely related to the political economy**. Many tax systems in developing countries are regressive, not progressive. The underlying questions of ideology and equity define the multiple challenges related to tax reform. They differ from country to country. Tax reform depends on the political will of government elites. Revenue mobilization plays a critical role in governance and increases the demands for government accountability.

52. **Tax reform is a multidimensional endeavour**. Good tax policy reform requires a system that relies primarily on broad-based taxes at moderate rates, self-assessment, tax simplification, low levels of exemptions and preferences, and a streamlined tax regime for small businesses. A good tax administration requires an integrated management structure, strong strategic planning, modernized information and technology systems and business processes. Good human resources development, a culture of customer service and strong internal audit capabilities and institutional integrity are also essential.

53. **The tax base is often extremely limited**. Many developing economies are characterized by large informal sectors and weak administrative systems and organizational capacities. Every year, the funds lost to tax evasion exceed by several times the total of official development assistance worldwide. The flight of capital, including to European countries, is common. A culture of tax exemption is prevalent in many countries. Trade liberalization can erode the tariffs that are a major source of revenue in many developing countries.

54. **Donor support remains fragmented**. The activities of different donors lack harmonization and do not adequately align to the unique requirements in individual programme countries. They concentrate on technical work (e.g., the automation of systems, the integration of tax departments and capacity-building) and rarely encourage political dialogue and advocacy. Programme countries sometimes have little control over the aid provided for tax reform or they need to coordinate with a large number of donors.

55. **Aiding tax reform should not lead to reducing aid**. Programme countries welcome the focus on using aid as a catalyst for taxation, provided that such support is secured in the long term and responds to country demands. Programme countries also voiced concerns that investing in tax systems may come at the expense of reduced official development assistance in the longer term. It was also mentioned that aid should not be tied to tax reform.

56. **Aid modalities differ**. There are no magic fixes or one-size-fits-all solutions on how aid should be invested to support tax reform. Support needs to be well coordinated among donors. It should be under the leadership of relevant national authorities, including tax authorities and ministries of finance and planning.

57. **Attracting investment can be very costly**. Developing countries provide considerable tax incentives to international companies to ensure that they invest in their infrastructure, and promote economic growth. This is understandable, given the dire need to strengthen the economic base in many developing countries. Yet, there is great scope for increasing coherence between policies related to foreign direct investment and domestic resource mobilization. Donors should take greater responsibility for this. Trade mispricing and reinvoicing by international companies are also common practices.

58. **Taxing aid money**. Aid is a major source of income for many developing countries. It was argued that it could be taxed to increase investment in areas where donors already provide budget support. On the other hand, it was noted that taxation should only apply to the economic activities of individuals and enterprises. Aid would be taxed twice, once in developing countries and once in donor countries.

Policy solutions and suggestions

59. **Long-term investment that aligns with the priorities of the programme country should be encouraged**. More long-term and demand-driven aid is needed to ensure visible improvements of national tax policies and administrations. There are many opportunities to support good practices to scale up efforts. Any donor initiative needs to address the complexity of challenges. It should steer clear of supply-driven support to avoid fragmented results. Aid for taxation should not come at the expense of official development assistance commitments. Tax reform should ensure that tax systems become more pro-poor. To eventually increase the taxable economic surplus, donors and the national Government need to place greater emphasis on creating employment, investing in productive capacity and promoting favourable and rights-based social and labour policies.

60. **Tax revenue should be spent on development**. It is vital that revenues mobilized through taxation clearly contribute to the achievement of international and national development goals. To demonstrate the positive impact of paying taxes, government services for the poor must improve. This would serve as an incentive in the long term. It is also critical to empower the poor and ensure that they are better represented in public policymaking and efforts to enhance good governance. If donors are seen as a more robust investor than the government, the incentive for paying taxes may be minimized. A focus should be placed on building social protection floors. But it is also essential to spend tax revenues in the country, including through strengthened local procurement. It would be useful to develop a common understanding of how taxation best contributes to development and of a strategy to make it happen.

61. **There is a need to strike a balance on whom to tax**. It is of course important to attempt to bring all economic activities into the formal economy, but cooperatives and other bodies providing for low-income populations should not be the primary target of taxation systems. This reduces the purchasing power of the poor. Rather, tax revenue authorities should apply a flexible approach to different segments of taxpaying populations. It was mentioned that large taxpayers, multinational companies that benefit from tax exemptions and entrepreneurs with personal relationships to tax authorities should be specific targets.

62. **The spotlight should shine on tax evasion**. In some countries, it has been useful to demonstrate how companies and other potential large taxpayers manage to avoid tax payments, even within legal parameters. Greater capacities to monitor local taxpayers through country-by-country reporting systems are much needed. Regional collaboration in this regard was also encouraged.

63. **Tax systems should be strengthened, even for countries with a low level of economic activity**. Even for countries with a limited tax base and resources, there is scope for improving tax systems and administrations. These need to be perceived as fair, predictable and steady. Greater efforts are needed to address capital flight, tax evasion and corruption. This will also make the case for increased aid packages from the provider countries.

64. **There is a need to ensure country leadership of support for taxation**. It is vital that central Governments take leadership and encourage donors to align and harmonize their efforts to support taxation. It was agreed that the policy dialogue

should focus on how strengthened revenue mobilization can be used to enhance support for the achievement of national and international development goals.

65. **Information and communications technology should be used, but more investment in human resources is needed**. Investment in online tax collection systems have helped to increase the revenue base, reduce corruption and promote a sense of duty towards tax. To be effective, these efforts must place greater emphasis on human resources capacity and management and on the training of personnel. This is also important when processes within tax administrations are becoming increasingly information technology-based. Without robust human resources in this area, development results will not materialize.

66. **Investment should be made in research in developing countries**. Research departments in tax revenue authorities act as early warning systems on the status of the national and global economy. They are also important for strategic planning on how national resources will be generated in future. Without strong research capacities, it is difficult for countries and regions to overcome shocks.

67. **There is a need to bolster the political will and strengthen the legal basis for tax reform**. It is vital to ensure that senior Government officials support tax reform. More needs to be done to reform the legislative basis for tax reform. For example, automated tax collection systems can go hand in hand with e-commerce and electronic signature laws.

68. **Coordination with donors should be improved**. Some country experiences show that coordination can be ensured among multiple donors through basket funds or by appointing a lead donor to coordinate with the Government. The donor community should further support tax reform, including through specific support, much wider public financial management programmes and mainstreaming tax-related recommendations throughout programmes and projects. Moreover, donors should try to "do no harm" so that domestic accountability relationships are not undermined.

69. **Communication within developing countries should be promoted**. Communication within different departments of revenue authorities is crucial to avoid a silo mentality in mainstreaming tax reform. Greater support should be provided to these institutions' outreach and advocacy functions towards their multiple clients. It is also important to encourage the ministries or departments responsible for aid management and coordination to engage with national tax authorities to discuss trade-offs, for example, between trade liberalization and promoting foreign direct investment, as well as their fiscal implications. More evidence-based assessments of taxation policy need to be encouraged. Equally critical is a dialogue on capacity constraints, needs and the political economy in which tax reform takes place. This must be organized under the leadership of central Governments and with the participation of all relevant national stakeholders, including parliamentarians, civil society and the private sector.

70. **Double taxation agreements between developing countries should be promoted**. The growing number of double taxation agreements between developing countries is one of many encouraging developments in regional collaboration. Knowledge-sharing and horizontal partnerships among Southern actors have also been instrumental in tackling the global tax challenges that go beyond national borders. Initiatives to encourage cross-border collaboration should get considerable

attention by donors to help in avoiding illegal financial flows and tax evasion. More support would be needed to promote regional collaboration, for example, in the area of taxation of multinational corporations. Regional and global initiatives to reduce the illicit flight of capital should also be further strengthened.

71. **Taxation and domestic revenue mobilization should be brought into the development cooperation dialogue**. At the regional and global levels, existing initiatives — from African Tax Administration Forum to the International Tax Compact — produce valuable policy recommendations for country-level programming. It should be ensured that such initiatives do not duplicate efforts. They should be built upon to promote a shift from a focus on the expenditure side to a focus on the revenue side in development cooperation. They should become an integral part of discussions on effective development cooperation.

72. **Indicators for measuring progress in domestic resource mobilization should be developed**. Indicators for effective domestic resource mobilization should be developed jointly by Governments. They should go beyond mere performance criteria, such as the ratio of taxes to gross domestic product, since tax authorities have limited influence on this kind of benchmark. Taxation should become an integral component of public financial management support from donors and of expenditure planning processes at the country level. The Development Cooperation Forum was viewed as a strategic place to further explore this and facilitate a debate in future.

D. Using aid to catalyse foreign direct investment entails both opportunities and risks

73. This session discussed how aid could be used most effectively to mobilize the kind of private investment, especially foreign direct investment, which contributes to poverty reduction and inclusive growth. Panellists from Afghanistan, the Turkish International Cooperation and Development Agency, and the European NGO Confederation for Relief and Development (CONCORD) made short presentations, followed by interactive discussions.

Background

74. Development financing is becoming increasingly diverse and complex, forcing a re-evaluation of the role of aid vis-à-vis other sources of development financing. There is a growing consensus that public expenditures funded by aid alone cannot be sustainable. Private investment, both external and domestic, is critical to expanding the revenue base of developing countries. This is essential to assure their financial independence and policy space. Developing countries, however, face considerable challenges in attracting sufficient private investment. Ensuring that private investment flows contribute to achieving national development objectives, such as job creation, sustainable growth and poverty eradication, is even more difficult. These challenges can be more effectively addressed if aid is provided and used effectively to attract foreign direct investment and other private investment that promote development in developing countries.

Key challenges and lessons learned

75. The discussions reiterated the risks and opportunities associated with the use of foreign direct investment to promote development, as learned from the experience of the past 30 to 40 years. Participants shared views on how to use aid as a tool to channel foreign direct investment towards the achievement of national development objectives.

76. **Private investment is guided by the logic of profit, which might not be conducive to achieving national development objectives**. The risks associated with private investment for development are well known. Foreign direct investment has often crowded out the domestic private sector in host countries, with a negative impact on economic growth and development opportunities. Aid strategies need to include incentives to attract private investment in developing countries while remaining consistent with the objective of strengthening the national economy and national development goals for job creation, poverty eradication and inclusive growth. This is especially important in the least developed countries, which are highly dependent on foreign direct investment for economic growth, given the low productivity of their private sector.

77. **Attracting foreign direct investment to developing countries requires reducing/mitigating risks and costs for private investors**. Aid can be used to mitigate risks and help to reduce costs for private investors. This can be done by sharing the costs of investing in developing countries and helping to support access to skilled labour, infrastructure, improved business environment and trade facilitation. There is, however, a need to ensure that using official development assistance as a catalyst for foreign direct investment does not become a way to subsidize such investment at the expense of the host country's development sector. There are indeed other ways to reduce investor risks in developing countries. Multilateral development banks, for example, can help to fill the gap left by commercial banks in supporting investment in small and medium-sized enterprises. This, however, might require additional capital and guarantees from stakeholders as well as other forms of risk mitigation. Those may include various forms of support to improve the business environment and trade facilitation in the context of aid for trade. Such measures are important for enabling the multilateral development banks to absorb greater risks and play this role.

78. **Private-public partnerships aimed at promoting foreign direct investment in programme countries might be another form of tied aid**. There is some evidence indicating that donor countries financing private-public programmes in developing countries also tend to involve their own private firms in the implementation of these programmes. Using aid as a catalyst for foreign direct investment might thus become another way to tie aid to the use of specific firms from the donor countries. Supporting national private investment as opposed to foreign direct investment might be more effective in promoting national development and be more sustainable in the long run.

79. **There is a need to promote private investment as a whole, not only foreign direct investment**. Foreign direct investment is only one component of private investment. Although such investment has increased over the years, foreign investors are still wary of investing in developing countries, particularly in the least developed countries. The public sector thus needs to step in to facilitate private investment as a whole, both external and domestic, in developing countries and

ensure that it leads to greater job opportunities and improved livelihoods. The role of aid, in particular, should be to leverage other types of financial flows that could have a greater impact on these objectives. This could be done by supporting a stronger overall investment climate in programme countries, which can attract all kinds of investment.

80. **Expanding the role of private sector is not a guarantee of inclusive economic growth and poverty eradication**. Some 30 per cent of current official development assistance continues to be directed to private sector and infrastructure development. It was, however, said that the past 30 years have shown that private sector development does not necessarily lead to poverty eradication. This is demonstrated by the fact that 75 per cent of the poor lives in middle-income countries. Directing official development assistance to private sector development away from the health and education sectors can be justified only if it contributes to sustainable and inclusive growth, job creation and poverty eradication.

Proposals for aid as a catalyst of foreign direct investment

81. **The emergence of local entrepreneurship should be promoted**. Aid would have a greater impact by investing in people, in particular women and girls. This is a dimension that is generally missing in the discussion on public finance. Private sector development and social dimensions should be pursued at the same time as they are interconnected with the dimensions of people's productive life.

82. **Specific incentives should be provided for private investors to invest in local and national productive activities in developing countries**. Aid should contribute to improve the business climate of programme countries by promoting market access, availability of skilled labour and land. In the current climate, this is particularly urgent, as the role of the private sector in development cooperation is bound to increase.

83. **The transfer of knowledge and technology should be facilitated**. A proper regulatory framework for foreign direct investment would need to be developed to enable transfer of knowledge and technology. Aid should be used to develop national capacity to formulate such a framework. For example, official development assistance could support the formulation of appropriate tax levels and rates as well as environmental, labour and social standards. It could also support national capacity to define and negotiate countries' own conditions for regulating foreign direct investment and thus maximize their impact in the economy.

84. **Development-oriented trade policies should be promoted**. Developing countries' access to and acquisition of technology is constrained by international and bilateral trade rules. The trade policies of donor countries should ensure that foreign direct investment facilitates the transfer of technology. There is also a need for international regimes (trade and property rights regimes) to allow the least developed countries to establish their own conditions for the emergence and evolution of a domestic private sector.

85. **The sustainability of private investment should be encouraged**. Grant-related investments should have an exit strategy in case investment is profitable.

86. **Accountability and transparency should be fostered**. There should be regular, country-level reviews of the total net impact of foreign direct investment on the economy of partner countries so as to enable comparisons with other, more broad-

based forms of investment. Such reviews should include all relevant stakeholders, including civil society and parliaments. Ensuring greater information and transparency on how foreign direct investment will be managed is also important. Such conditions should be met before aid is used to promote foreign direct investment.

E. Capacity-building is needed to promote more coherent management and use of financing at the country level

87. This session discussed ways of managing various financial flows so that they jointly contribute to development results. In general, coordinating aid and non-aid flows was seen as particularly challenging, given the lack of capacity in recipient countries, the shortage in coordination in both giving and receiving countries and the diverse incentives governing such flows.

88. Panellists from Uganda, IMF and Belgium made short presentations, followed by interaction discussions.

Background

89. Developing countries receive financing from multiple sources. These flows are of a different nature. Financing modalities are increasingly diverse. Ensuring that all external and domestic resources work together in contributing to national development objectives remains a persistent challenge for all developing countries.

90. Different sources of finance do not necessarily share common motives, interests, objectives and priorities. Aid is often driven by foreign policy objectives. The priorities of investors range widely. Developing countries are ill-positioned to negotiate with donors or investors. In practice, there has been little experience-sharing and discussion in this area.

Key challenges

91. **Flows from various sources are governed differently**. Bilateral, multilateral and new state actors, non-state actors and vertical funds all have their own institutional setups, authority arrangements, relationships between headquarters and the field, and different sets of strengths and weaknesses.

92. **The objectives and purposes of actors are diverse**. Funding directed at specific sectors focuses on one area and may not be necessarily aligned with national priorities. Private funding is profit-oriented, which requires regulatory frameworks and clear tax schedules.

93. **The modalities of development financing are becoming increasingly diverse**. Combining general budget support, sector-wide approaches, debt, innovative financing and non-financial flows (e.g., technical assistance) in one framework is a complex task.

94. **Time frames are not necessarily in sync**. Different funding sources follow different time frames. Development funding works with budget cycles. This is not necessarily the case for non-development funding.

95. **Governance structures in donor and recipient countries are not conducive to coherent management of flows**. In the area of aid, good mutual accountability mechanisms at the country level can facilitate the participation of development

partners, but when it comes to coordinating flows beyond aid, other authorities need to be engaged. However, there is a lack of dialogue in donor countries and development cooperation ministries and there are rarely any discussions beyond aid flows with other authorities. The same applies to recipient countries.

96. **Progress in the coordination of aid is modest at best**. Aid dynamics have changed as actors in and outside the aid effectiveness agenda have entered the development cooperation landscape. Aid is not well coordinated or aligned with national priorities. In country, actors are not informed of each other's activities in the same sector. There is a tendency for each to pursue its own agenda. Uncoordinated country missions are an example of lack of coordination. The division of labour among donors has not made sufficient progress. In certain cases, it has led donors to withdraw from certain sectors.

97. **A real-time "snapshot" of donor activities is lacking**. What donors do and plan to do usually remains obscure to recipient countries, which makes coordination impossible. When these become known, the politics may have already changed and priorities may have shifted.

98. **There is a shortage of funding for coordination**. Setting up coordination frameworks, mechanisms and plans entails costs. However, there are cases where the commitment to fulfil these requirements is not matched by financial support.

Lessons learned and solutions

99. **Partnership policies/frameworks/country compacts should be established**. Coherence needs broad frameworks. Development priorities need to be defined by the framework, against competing demands. The partnership policy of Uganda has set an example. In 2009, Uganda set up a policy coordination framework, which is used to assess the performance of all partners. The framework includes indicators such as budget support, policy coordination, untying of aid, joint mission, transparency as well as indicators for the programme country Government in line with the principles of value for money and transparency. The framework stresses the importance of a beyond-aid strategy, combining subsidies, trade, market access and technology. Stakeholders work together to ensure that the framework achieves results. Among other benefits, the partnership policy can bring greater benefits from financial flows and the reduction of transaction costs.

100. **National development strategies should become multifaceted**. National development strategies must consider how the country can manage different flows, and where the gaps are. This has to be based on an understanding of what is available and of the associated terms/conditions, time frames, predictability and level of alignment with strategic objectives. This can lead to offsetting of institutions and mutual accountability and performance mechanisms. Ultimately, the strategy has to ensure that all actors work together around it and use a national system but without much management. An exit strategy is also essential. Coordination around the strategy must open a space for NGOs and the private sector. Both may not be brought to the table on the same terms.

101. **The recipient countries should be allowed to set the rules of the game**. When the framework is in place, all actors should be engaged. If certain actors prefer business as usual, the recipient countries should be empowered to say no. Real dialogue usually takes place in sector groups where the leadership of the

Government is more easily exercised. On the other hand, both donors and programme countries should do their jobs right. Programme countries should ensure that their policies are not contrary to their development objectives.

102. **The capacity of recipient country Governments should be strengthened**. Setting up and managing policy frameworks requires dedicated institutions/agencies and upgrading the skills of personnel, which in some cases recipient countries alone cannot do owing to a lack of capacity. Resources are also needed to manage, collect, process and communicate information. Sound public financial system is also critical. The limitations in capacity have been underestimated in the past and should be readdressed as a priority.

103. **The division of labour should be accelerated**. The European Union has encouraged its members to focus on three sectors. For example, Luxembourg decided to exit from certain sectors in some countries and focus on fewer areas. Such experiences should be widely shared.

104. **Budget support should be prioritized**. Donors should work towards a single contract with the Government. If budget support is not applicable, using national systems is the minimum requirement. Vertical funds should be used with caution, as they can distort budgets. Loans should be managed more carefully to minimize impacts on future budgets.

105. **Aid should be used to leverage private resources**. A majority of the poor now live in middle-income countries and this trend will continue. Aid itself cannot meet such significant demands unless it leverages other flows. There is a clear change in official development assistance priorities. It was said that such assistance should be used to create an enabling environment and conditions for inclusive growth. This strengthened link will make possible the coherent management of flows.

F. Mutual accountability is increasingly seen as critical to maximizing aid results

106. This session identified recent trends in mutual accountability. It explored ways of including relevant actors in national and sector-level reviews of aid policies and in the definition and review of targets on aid quality. The ultimate objective of such change was seen to be twofold: to enhance the impact of aid and hold donors to account for their aid commitments.

107. The United Republic of Tanzania, Togo, the European Commission and the IBON Foundation/BetterAid presented their views and this was followed by an interactive debate.

Background

108. Mutual accountability between developing countries and providers is gaining momentum. It is a means of overseeing the effectiveness of development cooperation on the ground. It should be rolled out universally, while being specific to country priorities. It should build on the democratic systems of countries and respect parliamentary oversight and civil society engagement. Mutual accountability should apply to development results. Those should be defined on the basis of national priorities. They should be assessed against national priorities and internationally agreed principles, as agreed among all stakeholders.

109. In recent years, few countries have made progress in developing effective mutual accountability mechanisms that involve all relevant actors. It is well recognized that an integral part of these mechanisms are aid policies and performance assessment frameworks with individual targets, high-level multi-stakeholder platforms, and accessible databases on aid. Currently, 55 surveyed developing countries have no aid policy document.

110. Accountability mechanisms are more efficient if they focus on priority sectors chosen by the programme countries. Existing performance assessment frameworks should be used to review progress on a limited number of agreed, locally adapted targets on development effectiveness. Particularly useful are targets defined for individual providers. Performance assessment frameworks should be tailored to country contexts. They should be based on multi-stakeholder consultations, with governments in the lead. Political momentum on the ground should be strengthened. All actors should be effectively involved under country leadership.

111. At the global level, it was felt that a light structure should monitor progress independently. As a universal platform fostering multi-stakeholder consultations, the Development Cooperation Forum is an important global apex body for mutual accountability.

Key challenges to make mutual accountability work

112. **Alignment with key country priorities**. Aid policies need to build on national development strategies. In this way, they will be embedded in a framework that responds to domestic, national and international commitments and standards. This will also ensure greater country ownership and avoid interference when multiple actors engage in mutual accountability.

113. **Capacity challenges**. At the same time, Governments often quote the lack of national capacity as a key hindrance to further engagement in mutual accountability. This applies especially to countries in transition or relief from conflict. A major injection of resources is needed to: (a) scale up national information systems and databases in order to provide timely aid information relevant for national planning purposes; (b) invest in monitoring and evaluation capacity in order to root mutual accountability in a meaningful evidence base; and (c) strengthen country leadership to analyse policy documents and negotiate change. Ensuring that aid documents and review processes are owned by all stakeholders is time-consuming and requires costly consultations and training.

114. **Creating accountability relationships in programme countries**. In some cases, the lack of domestic accountability from Governments to their own citizens is a major limitation in establishing a culture of accountability. Parliamentarians and civil society organizations are usually not adequately involved in overseeing aid management, coordination and delivery. Greater authority should be granted to them. Also important is closer engagement with local governments and the supreme audit institutions as well as with the media. These are vital to creating an enabling environment based on good governance. The accountability of civil society organizations as providers of development cooperation is of particular concern to governments, despite existing standards and codes of conduct at the regional and global levels.

115. **Coordination of providers on the ground**. The limited coordination and coherence of providers at the country level is a concern. Mutual accountability mechanisms can help to promote donor coordination, which in turn can make aid relationships more balanced. It was noted that donors sometimes do not agree on targets against which developing countries should report. Without the increased coherence of donors' approaches at the country level, developing countries will not be able to hold donors to account and simplify their accountability and reporting to donors.

116. **Overly complex and unfocused reporting**. The number of indicators used to assess the development policy of programme countries as part of the mutual accountability mechanisms for aid is excessive and needs to be reduced. They should be tailored to focus more on relevant development outcomes, rather on than inputs and outputs.

117. **Broadening the tent**. A special challenge is to ensure that mutual accountability deliberations include development partners beyond those that provide general budget support. At the national level, those — including non-Development Assistance Committee donors and the private sector — should be encouraged to voluntarily engage in mutual accountability and report on their specific development cooperation activities. This may include signing agreements with the central Government and other donors. The dual characteristics of middle-income countries as providers and recipients of development cooperation would need to be reflected in these agreements. At the sectoral level, sector-wide approaches should involve all relevant government entities, bilateral and multilateral development partners, civil society organizations and the private sector.

118. **Addressing other financing for development**. Aid covers an increasingly limited portion of development finance. Donors are not held accountable on issues beyond aid, notably on those that affect development, such as trade, investment or debt relief policies.

Policy solutions and suggestions from the debate

119. **Holistic and country-specific reforms are needed to enhance mutual accountability**. Mutual accountability should not be only a technical dialogue. Instead, it should be part of a broader discussion of the delivery of results and the impact of aid. Reform should aim to put practitioners in the lead. Also important is to focus on a manageable set of indicators for all actors. Such indicators should build on guidance from global processes. The dialogue on global policy should also be energized to refine the roles of different actors in holding providers and governments to account on promises made.

120. **Such reforms should be driven by a strategic and inclusive vision**. It was said that a globally representative coalition of actors should work together post-Busan to draw up a strategic plan. The purpose would be to ensure that mutual accountability mechanisms become an integral part of results-oriented development planning at the country level. This should entail suggestions to promote mutual accountability and identify ways of disclosing relevant aid information. Donors need to support this process.

121. **Challenges should be identified on the basis of evidence**. A more thorough analysis of the political economy of individual countries and their status in mutual

accountability may be useful in evaluating why progress is minimal in some contexts. It would also help to identify which countries could be prioritized.

122. **It is not necessary to reinvent the wheel**. The creation of new mutual accountability mechanisms should be avoided in countries where elements of mutual accountability (policies, dialogue structures, etc.) already exist. The national development strategy should be at the centre of reform to improve existing policies and meetings/governance structures. This is important in framing a government-led dialogue with providers. Reform should also help establish a strong link between domestic accountability to citizens and mutual accountability between government and providers. It is critical to ensure that lessons learned and challenges are regularly reviewed at the global level. Global review mechanisms and independent reports are critical in this regard.

123. **Lessons can be learned from specific sectors**. In some countries, mutual accountability mechanisms at the sector, subsector and programme levels have had considerable impact on development results. They adopt a "business-like" approach and are more evidence driven. They thus provide incentives for governments to take the lead. At this level, it is meaningful to involve informed practitioners from providers, local governments, parliamentarians and civil society organizations. Some of these actors are answerable only at this level. Fundamental accountability relationships should be nurtured at the local level. For example, local public hearings also have a strong impact on domestic accountability. Such assessments are most efficient when they ask what works and what does not work to promote accountability. They would, however, need to feed into higher levels of coordination. This will help to ensure that they have a long-term impact on development planning and the overall policy framework of the central Government.

124. **Political buy-in must be bolstered**. Mutual accountability is inherently political. A two-pronged approach in pursuing mutual accountability reviews has been effective in yielding meaningful results. It should consist of an inclusive high-level political debate on the progress and effectiveness of development efforts and informed policy dialogue among practitioners to identify solutions to remaining challenges.

125. **A link should be established with supranational structures to strengthen behavioural change**. At the regional and global levels, dialogue structures need to be truly inclusive as well. They should not duplicate each other (see also the extensive recommendations on this issue from the Expert Group Meeting on International Mutual Accountability). Lessons can be learned from the format of the Cotonou Agreement and from the African Union.

126. **Good practices should be shared**. There are a number of good practices in building capacity in the area of statistics, promoting the open engagement of civil society and strengthening budget and programme monitoring and policy evaluation by parliaments. An exchange of experiences can help to replicate and expand them, where feasible. Parliamentary networks should be better used to promote exchange on accountability for results. Active local governments should act as champions and encourage other local authorities to engage in mutual accountability.

127. **Issues beyond aid should be addressed**. Country level mutual accountability systems should review incoming financing flows beyond aid. It would be useful to negotiate indicators that focus on the contribution aid can make towards more

effective development cooperation. National monitoring and evaluation systems need to be scaled up and strengthened, as they can generate evidence for meaningful mutual accountability. Also, donor representatives should have greater capacity and authority to discuss beyond aid issues and policy coherence. National forums should increasingly discuss the role of aid as a catalyst for other development financing.

128. **Lessons can be learned from South-South exchanges**. Peer learning at country and regional level will be critical in the coming years. So far, structured South-South exchanges of lessons learned among developing countries have been effective in improving mutual accountability processes. They help to strengthen national ownership of the mutual accountability agenda and to build capacities at the country level in a cost-effective and results-oriented way.

United Nations E/2012/87

Economic and Social Council

Distr.: General
20 July 2012

Original: English

Substantive session of 2012
New York, 2-27 July 2012
Agenda item 7 (e)
Coordination, programme and other questions: long-term programme of support for Haiti

Report of the Ad Hoc Advisory Group on Haiti

Summary

The present report highlights the main findings of the Economic and Social Council Ad Hoc Advisory Group on Haiti following its visit to Haiti and other meetings with the country's development partners. The report describes the encouraging progress observed in the reconstruction and recovery process in Haiti as well as on the political and rule of law fronts. It also stresses that these positive steps will be insufficient if additional and sustained efforts are not made by all Haitian actors, supported by their international partners. While Haiti may be undergoing a process of normalization, the weakness of public institutions, widespread poverty, multiple vulnerabilities and a long history of political instability advocate for Haiti to remain high on the international agenda, with appropriate levels of support. The report includes recommendations addressed to the Haitian authorities and their development partners on how such continued support can be provided so as to take advantage of progress already made and to lead them to a sustainable development path which the Haitian people deeply need and deserve.

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I. Introduction

1. The present report is the eighth submitted by the Ad Hoc Advisory Group on Haiti since its reactivation by the Economic and Social Council (see resolution 2004/52) following a request by the Government of Haiti. The Group had originally been established in 1999 to help coordinate the development of a long-term programme of support for the country.

Mandate and composition of the Group

2. In accordance with Council decisions 2004/322, 2009/211, 2009/267, 2011/207 and 2011/211, the Group is composed of the Permanent Representatives of the Bahamas, Benin, Brazil, Canada, Chile, El Salvador, France, Haiti, Peru, Spain and Trinidad and Tobago to the United Nations and the United States Representative to the Council. Since November 2004 the Group has been chaired by the Permanent Representative of Canada to the United Nations. As stipulated in decision 2004/322, the President of the Economic and Social Council and the Special Representative of the Secretary-General for Haiti are invited to take part in the meetings of the Group.

3. In its resolution 2010/28, the Economic and Social Council decided to extend the mandate of the Ad Hoc Advisory Group on Haiti until its substantive session of 2012 with a view to closely following and providing advice on Haiti's long-term development strategy to promote post-disaster socioeconomic recovery, stability and reconstruction, with particular attention to the need to ensure coherence and sustainability in international support for Haiti, based on the long-term national development priorities, as contained in the Government's Action Plan for the Reconstruction and National Development of Haiti, and stressed the need to avoid overlap and duplication with respect to existing mechanisms. In its decision 2011/268, the Council requested the Group to report on its activities in support of the recovery, reconstruction and development of the country, with recommendations, as appropriate, to the Council at its substantive session of 2012.

Outline of the activities of the Group

4. While most of the conclusions in the present report are based on the visit of the Group to Haiti from 21 to 24 May 2012, the Group's preliminary meetings with the Special Representative of the Secretary-General for Haiti and head of the United Nations Stabilization Mission in Haiti (MINUSTAH), Mariano Fernández, the Deputy Special Representative of the Secretary-General and Resident Coordinator, Nigel Fisher, and the Representative of the World Food Programme (WFP) in Haiti also provided important information and analysis that facilitated the preparation of the report.

5. The visit of the Group took place a week after the ratification by the Parliament of the new Government, led by the Prime Minister, Laurent Lamothe. This appointment put an end to the power vacuum left by the resignation of the former Prime Minister, Garry Conille, in February 2012 after four months in office. Earlier in the year, disputes between the executive and the legislative branches of the Government had contributed to a tense environment and hampered development support to the country. While the Group followed these political developments, the absence of regular authorities at key levels of the Government made its work difficult at times. The formation of a Government in May allowed the Group to

re-engage with Haitian leaders and evaluate the situation and prospects for development.

6. The Group recognizes that the Haitian population continues to face serious challenges. However, the Group witnessed progress in the recovery from the January 2010 earthquake, despite an environment marked by serious problems and threats, including the hurricane seasons, the presence of cholera, political uncertainties and an international economic and aid context that has deteriorated.

7. Members of the Group wish to express their profound gratitude to the Haitian authorities, including the President, Michel Martelly, the Minister of Economy and Finance, Marie Carmelle Jean-Marie, the Minister of Planning and External Cooperation, Josepha Raymond Gauthier, and the Minister of Trade and Industry, Wilson Laleau, as well as parliamentarians for the open and constructive exchange. In addition, the Group is grateful to the Department of Economic and Social Affairs of the Secretariat for its constant and dedicated support for the work of the Group, to Mr. Fernández and Mr. Fisher and their able team, as well as the entire United Nations country team, for their excellent support during the visit. The programme of the Group (see annex) included numerous meetings with a broad range of national and international Government and civil society actors as well as a visit to Cap-Haïtien and Ouanaminthe.

II. Continued need for strong and coherent development support to Haiti, in a changing environment

8. At the international donors conference, with the theme "Towards a new future for Haiti", in New York on 31 March 2010, donors pledged to provide $6.5 billion in aid for Haiti for activities between 2010 and 2012, including programme support of approximately $5.5 billion, and approximately $1 billion in debt relief. According to the Office of the United Nations Special Envoy for Haiti, donors had disbursed 45 per cent of those pledges (a total of $2.48 billion) by April 2012. In addition, donors have disbursed $760.5 million for recovery efforts through sources of funding other than the donors conference of 2010.

9. Two thirds of these funds were disbursed in 2010, one third in 2011 and a very limited amount in early 2012. It is of utmost importance to reverse the low rate of disbursement, to engage in disbursing the second half of the funds pledged in New York and to ensure that these are actually spent on the ground. The entry on duty of a new Government could facilitate a positive move in that direction.

Need for continued humanitarian support

10. The above figures do not include humanitarian assistance, for which up to $3.5 billion were disbursed in 2010. While this figure testifies to an unprecedented wave of solidarity after the earthquake, humanitarian funding for 2012 remains insufficient. Of the $128 million requested in the humanitarian appeal for 2012, 37 per cent was funded at the time of reporting.

11. As at July 2012, 390,000 people still lived under tents. These are mostly chronically extremely poor people who have no access to basic housing. Beyond humanitarian concerns, this situation raises a deep development challenge. In addition to the deterioration of the living conditions in camps since the withdrawal

of many humanitarian actors, the risks inherent to the rainy and hurricane season and the cholera outbreaks that may occur as a result of contamination of water sources, call for increased vigilance.

12. In addition, it is estimated that 38 per cent of the Haitian population (i.e. 3.8 million persons) is in a situation of food insecurity, with 23 per cent of children of less than 5 years of age chronically undernourished. In spite of this situation, WFP is faced with a reduction in donor contributions for its operations and urgently needs funding to maintain its support programmes, including school feeding, until the end of 2012.

13. The Group wishes to relay these concerns to the donor community. A major humanitarian crisis, which could have destabilizing effects and jeopardize development gains, must be avoided. In addition, the Group encourages the United Nations to look at appropriate development mechanisms and forms of assistance, including through disaster preparedness, in order to address these ongoing problems that have chronic humanitarian consequences.

Donor coordination

14. A major recent development has been the end of the mandate of the Interim Haiti Reconstruction Commission on 21 October 2011. This has affected the decision-making process on the review and selection of priority recovery projects as well as donor coordination efforts, which the Commission allowed for at a high political level. As a consequence of the closure of the Commission, the Haiti Reconstruction Fund is currently unable to approve new funding allocations. However, the Government of Haiti is in the process of revising the Reconstruction Fund manual so that the Fund can be resumed. International organizations, particularly the United Nations country team, provided strong technical advice to the Commission and seconded experts. It is therefore important that the legacy of the Commission is not lost and that appropriate Haitian-led follow-up mechanisms be established in order to ensure the effectiveness of aid to Haiti.

15. In that respect, the Government of Haiti has worked with key development partners to set up a permanent and functional aid coordination architecture, composed of a strategic forum with key national and international actors, the revamping of sector coordination through the reinforcement of sector groups under the leadership of relevant ministries, and putting into operation an aid tracking system that is being set up by the Ministry of Planning with support from the United Nations Development Programme (UNDP). During the visit of the Group, the office of the Prime Minister announced its agreement with this new architecture, which will require strong support from international partners to reinforce Haitian capacities and leadership. The Group stresses the role of the United Nations country team, in particular UNDP, to support a coherent capacity-building strategy led by the Ministry of Planning in order to make these mechanisms operational. It is also important that the group of 12, which includes the 12 main international partners of Haiti, promote joint approaches among donors to State capacity-building.

Support to and alignment with priorities of the Government

16. The Group has repeatedly advocated for a good share of international support to be spent through the channels of the Government of Haiti so as to contribute to the strengthening of national capacities. Unfortunately, such an appeal has not been

widely heard, as only an estimated 16.4 per cent of all recovery funding has been disbursed to the Government using its systems, according to the Office of the United Nations Special Envoy. It is also estimated that multilateral agencies received a quarter of the funds and non-governmental organizations and other private contractors and providers close to 50 per cent. A total of $299.2 million has been disbursed to the Government by way of budget support, i.e. 9.2 per cent of total recovery funding. Special efforts should be made to balance these figures as the State apparatus of Haiti recovers from the destruction of the earthquake and is able to absorb more assistance. The Group welcomes the fact that the United Nations country team has made the strengthening of government capacities, including the increased use of national systems and mechanisms, as one of its priorities for 2012 as well as in the new United Nations integrated strategic framework for Haiti for the period 2013-2016.

17. The Minister of Planning of Haiti and senior staff from the Ministry presented the strategic plan for the development of Haiti to the Ad Hoc Group. This plan, which was prepared by the Ministry of Planning, aims at making Haiti an emerging country by 2030 and provides a planning, programming and management framework for development support to the country. Major thematic areas have been defined around a long-term vision and strategic orientations. Development partners are invited to provide support through the programmes and subprogrammes that have been identified for each thematic area so as to streamline aid processes. The United Nations country team already uses this framework for its support. The Group wishes to encourage all development partners and donors to follow this example.

18. Parliamentarians who met the Group during its visit also raised the need for international actors to enhance the role of the Haitian State in the formulation and implementation of assistance programmes, thereby avoiding parallel and fragmented processes. The view was expressed that with the new state of affairs in the relations between the Parliament and the Government with the new team in power, the time had come to promote active communication between the two powers and to facilitate productive working relationships.

19. The Group believes that this more constructive approach needs to be encouraged and calls upon development partners to provide appropriate financial and technical assistance to the Parliament to strengthen its capacity to perform its budgetary, legislative and other tasks adequately, including through specialized commissions. At this critical juncture, these efforts could contribute to increased transparency, inclusiveness and accountability in international support to the country. Such opportunities should not be missed.

Mutual accountability

20. The traditionally slow disbursement rates of international programmes in Haiti have derived from a persistent lack of trust between donors and the Haitian authorities, linked to political uncertainties and limited capacities to manage aid. The Group was informed that early in February 2012, discussions among the Government, then led by Mr. Conille, and the group of 12 had led to an emerging consensus on the need to jointly develop a pact of partnership and mutual accountability that would set out the responsibilities of all parties in the delivery and coordination of aid programmes.

21. The Ad Hoc Group strongly encourages the development of this pact which, in conjunction with the aid coordination architecture mentioned above, would create an enabling environment for the acceleration of donor disbursement and improved results. This is all the more important as the international context is marked by a slow down in international assistance with increased competition to attract support. While the Minister of Planning will lead the dialogue with development partners, the Group recognizes the role of the United Nations Resident Coordinator in facilitating this process and calls on all development partners to engage in it.

Coordination within the United Nations system in a context of transition

22. Composed of 20 resident organizations,[1] the United Nations presence in Haiti has increased its internal collaboration. The number of joint programmes went from one before the earthquake to a current portfolio of 11, for a total amount of $274 million, six of which are being funded through the Haiti Reconstruction Fund. The integrated strategic framework, first developed in 2010, was extended until December 2012. A new strategic framework for the period 2013-2016, which will integrate humanitarian, development and stabilization priorities in support of the Government's new plans, is expected to be completed in the near future and replaces the United Nations Development Assistance Framework. The new integrated strategic framework will address two important dimensions of the new context of transition, namely the commitment to increase the focus on and resources for strengthening Haitian institutions and the gradual consolidation and eventual draw-down of the presence of MINUSTAH based on conditions on the ground.

23. The Ad Hoc Group wishes to thank the United Nations country team for organizing an exhibition during its visit, where each organization showcased its activities in Haiti. This very informative and well-prepared event allowed the Group to have a comprehensive picture of the work of the country team, which covers different types of activity (such as reconstruction, community support projects and policy advice) in all the major areas of development. The Group also gained a better sense of cross-cutting issues and areas for joint programming within the system.

24. The strengthening of Haitian institutions implies exploring innovative ways of jointly facilitating the participation of local authorities and citizens in identifying priorities and making resources available. For example, a total of 835 staff (80 per cent Haitian and 20 per cent international) were seconded by the United Nations system to Government ministries and local authorities in 2011. However, some limitations have been encountered, such as the lack of resources to increase permanent United Nations presence at the departmental level and limited incentives and mechanisms for the United Nations to strengthen the Haitian private sector. The

[1] Food and Agriculture Organization of the United Nations, International Fund for Agricultural Development, International Labour Organization, International Monetary Fund, International Organization for Migration, Joint United Nations Programme on HIV/AIDS, Office for the Coordination of Humanitarian Affairs, Office of the United Nations High Commissioner for Human Rights, Office of the United Nations High Commissioner for Refugees, Pan American Health Organization/World Health Organization, United Nations Children's Fund, United Nations Development Programme, United Nations Educational, Scientific and Cultural Organization, United Nations Entity for Gender Equality and the Empowerment of Women, United Nations Environment Programme, United Nations Human Settlements Programme, United Nations Office for Project Services, United Nations Population Fund, World Bank and World Food Programme.

Group supports the efforts made by the country team to address these challenges and calls for appropriate backup by United Nations organizations to allow these field activities to be expanded.

25. The Resident Coordinator plays an important role in promoting and organizing such innovative joint activities. The Group therefore considers it important for the Resident Coordinator structures to be given the means needed to maintain these activities. This is all the more important in the context of the possible consolidation of MINUSTAH, which may result in the United Nations country team taking on more activities outside Port-au-Prince.

26. Relevant collaboration and integration activities between MINUSTAH and the country team have been put in place, such as a joint recovery workplan for key rule of law programmes. The collaboration between MINUSTAH and WFP on planning and joint operations for logistics and communications, focused on emergency preparedness and responses, also deserves to be praised. Increasing national capacities does not preclude the need for emergency humanitarian interventions in Haiti, given ongoing risks of natural disasters and other crises with detrimental effects on the already very vulnerable population. The Group therefore encourages that emergency programmes be designed in such a way as to work through and extend government structures, to the extent possible.

27. The Group was informed of the new mission concept that MINUSTAH is developing, which includes a set of benchmarks that will serve as a basis for a consolidation plan and a road map for a phased transfer of tasks to State institutions, beginning in low-risk departments and based on conditions on the ground. The Group encourages these steps in the right direction, and is aware of the fact that these can only produce results over a medium to long period of time given the structural weaknesses on the ground.

III. Mobilizing Haitian stakeholders for development

28. Improved modalities for development support will produce results only if national stakeholders are on board and empowered to fully benefit from the assistance provided. The Group held meetings with different categories of actors so as to assess their role in the development process.

Momentum for support to national priority sectors

29. The Group has reviewed the priority sectors identified for reconstruction and development by the Haitian authorities and salutes the consistency with which they have been promoted since its last visit, including in the general political statement by the Prime Minister to the Parliament of Haiti in May 2012. To the four categories identified by Mr. Martelly last year, namely education, employment, environment and the rule of law, which continue to be promoted as key areas for action, a fifth category has been added as a major component of the recovery programme, namely energy.

30. This is indeed a key dimension for the sustainable development of Haiti and a condition for improvement in the three pillars of sustainable development, in particular private sector development on the economic front, improved living conditions of disadvantaged populations on the social front, and addressing

environmental concerns, given the massive deforestation that prevails in the country (where forest cover is equivalent to less than 2 per cent of the land area).

31. In the field of education, the programme launched by Mr. Martelly aimed at massively increasing free universal education, has started to be implemented. Progress was reported to the Group, although this could not be documented by precise information on beneficiaries or the level of financial support provided. This raises the question of the monitoring and evaluation of programmes, in particular large-scale ones such as the education programme, and the need to adopt tools to direct the work and ensure accountability to local taxpayers and international donors. This relates to the reform of public administration, a major endeavour that the Government will have to embrace, with the support of its development partners, in order to deliver tangible results to benefit the population.

32. The creation of an apprenticeship university is planned, which would cover various fields (fishery, agriculture, masonry work, mechanics, etc.) in Port-au-Prince and each of the provinces to provide a trained workforce to economic actors. The employment part of the strategy of the President will largely depend on the capacity to unleash the potential of the private sector and allow for job creation, an area where momentum was also noted.

Renewed prospects for the private sector

33. The call for utilizing the private sector as a driving force for development is not new in Haiti. In 2009, a report was published in which a strategy for the rapid attainment of economic security, focused on the private sector, was proposed.[2] The same year, a Presidential Commission on Competitiveness was established by the President at the time, René Préval, with a view to enhancing entrepreneurship and wealth creation. The level of involvement of the new Haitian leadership in this area of the development strategy is particularly strong and supported by the fact that several ministers have a distinguished professional background in the private sector. The slogan of the Prime Minister, "Haiti is open to business", has become a motto of the authorities in power to attract investors, while the overall objective of the development strategy is to make Haiti an emerging country by 2030. The Group welcomes this aspiration and the willingness of the Government to act as a catalyst for private investment.

34. Integrated economic zones, with industrial parks and transport facilities, are one way of translating this vision into practice. The Group visited a free-trade zone near Ouanaminthe, in north-eastern Haiti, which employs 6,500 workers in the textile industry through a co-production business model developed by an industrial group from the Dominican Republic. There are plans to build another factory and a second training school for newly recruited workers. A similar park, located at Caracol, also in the Northern Department, is under construction, with a capacity to create jobs for 15,000 workers. Coordination in setting up this planned new facility with the existing Ouanaminthe free-trade zone would seem advisable to ensure that both projects provide sustainable benefits in terms of economic development.

[2] Paul Collier, "Haiti: From natural catastrophe to economic security", report prepared for the Secretary-General of the United Nations (Department of Economics, Oxford University, January 2009).

35. The granting of preferential treatment to Haitian products under the Haitian Hemispheric Opportunity through the Partnership Encouragement Act, enacted by the United States Congress, greatly contributes to this momentum. Through this legislation, garments "made in Haiti" have duty free entrance into the American market regardless of the origin of the yarns and fabrics used, which increasingly come from Asia, and can be finished in the Dominican Republic, while being shipped directly to the United States of America as "Haitian products".

36. These industrial parks represent an alternative to agricultural activity and an opportunity for employees to receive rather low but regular wages. While their contribution to job creation is limited (an estimated number of 50,000), they constitute an incentive to improve transport facilities and infrastructure in the area, as illustrated by the new road built between Ouanaminthe and Cap-Haïtien, financed by the European Union, and the planned construction of an international airport in Le Cap, thereby following up on recommendations made by the Presidential Commission on Competitiveness of 2009.

37. Representatives of the Haitian private sector with whom the Ad Hoc Group met during its visit, expressed some impatience vis-à-vis the lack of tangible improvement in the environment in which local business operates. The time has therefore come to implement the proposals that have been made since 2009 to encourage business operators to expand activities and effectively promote entrepreneurship among young people. This requires a wide range of administrative and other measures, including new arbitration mechanisms, improvement of local procurement procedures and an efficient insurance sector with appropriate regulations. Quick progress on some of these issues would give encouraging signals that change is on the way.

Unleashing the potential of civil society in Port-au-Prince and the provinces

38. One of the characteristics of Haiti is its vibrant civil society, which could be a strong asset for the development of the country. The Group was encouraged by progress made in the field of gender equality and the empowerment of women, an area where civil society groups have traditionally been very strong. The new Government has named women to 40 per cent of appointed positions. In the process of revising the Constitution, a quota of 30 per cent representation of women in public office has been passed, a request that women's groups have often presented to the Group in the past. The bill on responsible fatherhood, which was adopted by the lower Chamber in 2010, was finally adopted by the Senate in April this year. The new law provides a legal framework to hold fathers responsible for their children and improve the situation of families led by single mothers (47 per cent of Haitian families) who are often faced with tremendous economic difficulties. Such steps forward are a recognition of the relevance of the fight of Haitian women's groups and a source of hope for continued improvement of women's livelihoods. As previously advocated by the Group, other bills on the agenda of the Parliament related to the status of women, such as on domestic labour and the recognition of consensual unions, could also be examined as a matter of priority by the new legislature.

39. Most rural women continue to live in particularly precarious conditions. This calls for a mobilization in support of rural communities, which represent the majority of the Haitian population and whose agricultural production is essential for

the economy of the country. Interlocutors of the Group in the provinces, including the archbishop of Cap-Haïtien, expressed the view that the devastating earthquake of 2010 had focused attention on and support to the area of Port-au-Prince, to the detriment of the provinces, leading to a deterioration of living conditions there as well as a continuing lack of improvement in the overall security situation. While the need for decentralization was emphasized following the disaster, and advocated for by the Group, little tangible progress has been made to date. The recent holding of the Council of Ministers in the city of Cap-Haïtien, for the first time in the history of the country, is a welcome signal of the willingness of the new team in power to turn the chapter of the republic of Port-au-Prince and to engage in a broader and balanced vision of the development of the country. The Group encourages these efforts.

40. A lot has to be done to regain the confidence of the population in the capacity of the Haitian State apparatus to solve their problems, particularly in the provinces, and to put an end to the feeling that no institutional power controls the situation on the ground. The appointment of two vice-ministers in charge of rural affairs, human rights and the fight against extreme poverty demonstrates a willingness to tackle social exclusion and to assert the role of the State in that regard. Civil society groups, which have had the tendency to split into small structures, should also be assisted through capacity-building activities. Efforts by the Haitian authorities and development partners, such as UNDP, to train civil society groups and involve them in disaster preparedness are welcome developments in that context.

41. The United Nations presence on the ground plays a valuable role in involving communities in development processes. For example, by working with local communities in the school feeding programme, WFP has acted as a catalyst to give market access to small farmers. MINUSTAH, through its presence in the whole country, has also played an important role in providing and facilitating support locally, as the Group witnessed in the north of the country. The Group therefore reiterates the need to ensure that any changes to the size and mandate of MINUSTAH should be compensated by a stronger presence of United Nations and other development actors in the provinces concerned.

IV. Rule of law as a component of and a condition for development support

42. The rule of law is one of the five priorities set by the President and Prime Minister. Given the recent history of Haiti, marked by political instability and its impact on the delivery of development support, the question of the rule of law has become closely associated with the discussion on international assistance.

Long-awaited end of the institutional deadlock

43. A prerequisite for respect for the rule of law is the productive interaction between the three powers. The ratification by both Chambers of the Prime Minister a week before the visit of the Group testifies to the improved relations between the executive and the legislative branches of government. Both the President and parliamentarians have stated to the Group their willingness to work together to improve the living conditions of the Haitian population. Their capacity to act on promises and to deliver results will be tested in the months to come. While the

capacity of the Government to develop and implement public policies will be scrutinized, the Parliament will also be expected to take action on a higher number of legislative projects than it has been doing until now (10 to 12 a year). A parliamentarian with whom the Group met called for the adoption of a political stability compact so as to sustain these efforts. In addition, it should be kept in mind that in a constitutional system organized around a bicameral legislative power and a bicephalous executive, the functioning of institutions also depends on the relations within each power, namely between the Senate and the lower Chamber and between the President and the Prime Minister.

44. When he met the Group at the end of May, the President announced that he was about to publish the constitutional amendments that had been on hold for a year. On 19 June 2012, at a ceremony at the National Palace, in the presence of the Presidents of the National Assembly, the Senate and the Supreme Court, Mr. Martelly cancelled a former presidential decree and sent instructions to the national press to publish the Constitution of Haiti as amended on 9 May 2011.

45. This decision has major effects on rule of law institutions in Haiti. The publication allows for the establishment of a permanent electoral council that will replace the provisional council whose performance was repeatedly criticized. The President told the Group that municipal and partial legislative elections would be organized in a timely manner, possibly in November. The Group is aware that these elections are technically very complicated since more than 30,000 candidates will be running for different types of functions within local and municipal councils, as well as mayors and senators. A mobilization of all relevant actors is therefore needed to ensure adequate preparations for elections.

46. The Group also notes that the amended Constitution no longer requires ratification of the designated Prime Minister by the Parliament, which will allow the executive branch more flexibility and could help to avoid delays and institutional deadlocks in the future.

Progress on judicial institutions

47. The constitutional amendments also enable the establishment of a Constitutional Council which will ensure that in the future laws are in conformity with the fundamental charter of the nation. Of utmost importance for the adequate functioning and independence of the judiciary, the Superior Council of Judicial Power will be inaugurated as soon as its members have been vetted by the Ministry of Justice and Public Security. In October 2011, Mr. Martelly appointed the President of the Supreme Court, after years of that post being vacant, who will act as the Chair of the Superior Council. Four new judges were also sworn into the Court, which, once the last remaining vacancy is filled, will recommence having sittings and playing an active role in the judicial system.

48. The Group applauds the decisions taken to ensure the functioning of key rule of law institutions. This is particularly welcome after the series of appointments and resignations of Ministers of Justice and Chief Public Prosecutors in Port-au-Prince over the past six months, which have weakened the justice sector. The Group is also aware of the fact that proper functioning of these bodies, in particular the Superior Council of Judicial Power, requires effective administrative and secretariat support. It therefore calls on the Haitian authorities, supported by international partners, as appropriate, to provide them with adequate financial and material resources.

49. When visiting the prison in Cap-Haïtian, where 70 per cent of inmates are pretrial detainees (a figure in line with the national average), the Group witnessed the challenges of managing law enforcement institutions in Haiti and coping with basic humanitarian needs, such as water provision. While this aspect of the rule of law is often forgotten by development partners, it is an essential element of the penal system which deserves attention equal to that given to judicial institutions. The Group commends MINUSTAH for the support provided to the prison system throughout the country and calls on other development actors to consider supporting it as well. It also encourages MINUSTAH and UNDP to deepen their cooperation for support to the justice sector.

50. The rule of law does not relate only to criminal justice matters. Reform of civil law is also essential. In this regard, the Group reiterates its call to establish a land registration system to strengthen security of tenure. This is all the more important as the progressive closure of camps for displaced persons in Port-au-Prince calls for the status of land occupation prior to the earthquake to be determined.

51. In addition, as Haiti aims to attract investors, the adoption of relevant legislation on the facilitation of investment and conciliation mechanisms, which may already exist but are largely underutilized at present, should be promoted as part of efforts related to the rule of law. It is also noted that the long-awaited recognition in the amended Constitution of dual nationality will probably increase investment by Haitians from the diaspora and will therefore call for improved business practices.

Strengthening the Haitian National Police

52. The Group visited the Police Academy and met its director, other senior staff and United Nation police officials posted at the Academy, and was informed of the encouraging prospects for the development of the Haitian National Police. According to the development plan for 2012-2016, the Haitian National Police should reach 15,000 officers by the end of the period, which requires the recruitment and training of 1,200 officers per year.

53. To cope with the rapid development of the institution, proper funding is a priority for all Haitian National Police branches, including procurement of firearms and ammunition, training, forensic laboratory facilities and medical facilities for the clearance of National Police candidates. The continued support of MINUSTAH and bilateral partners is of utmost importance so as to keep up the pace of recruitment and deployment and to develop training for police inspectors and commissioners.

54. Senior Haitian National Police authorities stated that, while the conditions of work were sometimes difficult, morale was high. They said that so-called paramilitary groups, which were often infiltrated by common criminals and which had taken over some public spaces in town during the first part of the year, were not likely to create trouble in the police. The institution remained strong, so long as it could count on the support of its partners. However, additional coastal and border security forces were needed to deal with the numerous trafficking networks in the region.

55. They also stated that in a country where institutions were often weak and undersized, the Haitian National Police had grown to a respectable size and was engaged in a very encouraging consolidation and expansion, thanks to close

collaboration with the country's partners. It was now a matter of maintaining that situation and concentrating on implementing the plan for the period 2012-2016.

V. Conclusions and recommendations

56. **Two years after the devastating earthquake, Haiti has come a long way. Obvious progress has been made in removing debris, rebuilding houses and relocating displaced people. In a difficult environment, marked by recurrent natural disasters, the outbreak of cholera and a shortage of international assistance due to the world economic and financial crisis, the people of Haiti have shown their capacity to bring solutions to acute problems. The international community has played an important role in supporting the country in these endeavours. At the political level, Haiti has a functioning Government and the President has taken important decisions to improve the institutional apparatus and allow for the rule of law to take root.**

57. **All these positive steps are necessary conditions for the situation to improve in the long term. However, they will not be sufficient if additional and sustained efforts are not made by all Haitian actors, supported by their international partners. Haiti may be in the process of normalization, but the weakness of public institutions, widespread poverty, multiple vulnerabilities and a long history of political instability advocate for Haiti to remain high on the international agenda, with appropriate levels of support. Decreasing assistance to Haiti at this stage would jeopardize the gains that have been recently made.**

58. **A strong United Nations presence on the ground, in the form of MINUSTAH and the United Nations country team, remains essential, with a gradual transfer of competencies from one to the other. The United Nations system is also expected to play a leading role in encouraging all partners to support the Government's development plans and priorities. At the intergovernmental level, the involvement of the Peacebuilding Commission in the situation in Haiti could be considered with a view to assessing its added value for existing mechanisms and mandates.**

59. **For ease of reference, some recommendations contained in the body of the report are summarized below for consideration by the Council.**

60. **To sustain the recovery and reconstruction of Haiti and engage in long-term development, the Group encourages Haiti's development partners to:**

(a) **Renew their commitment to the pledges made at the international donors conference held in New York in March 2010, accelerate disbursements in line with commitments made at the conference and mobilize new funds;**

(b) **Urgently respond to the call to fund the multi-year revision of the consolidated humanitarian appeal for 2012, particularly in priority areas such as the Water, Sanitation and Hygiene for All initiative, camp management and shelter clusters, as well as the activities of WFP until the end of the year and beyond;**

(c) Use the strategic plan for the development of Haiti developed by the Ministry of Planning and External Cooperation of Haiti as the framework for donor support;

(d) Engage in the new donor architecture for aid effectiveness to Haiti, including through empowering Haitian ministries to pilot the work of sectoral round tables;

(e) Share data in a timely and accurate manner with the aid tracking system set up by the Ministry of Planning with support from UNDP;

(f) Ensure that a certain percentage of projects and related funding is directly implemented by the Haitian authorities, with a commensurate level of support provided for capacity-building through the training and mentoring of civil servants, and with direct budgetary support and/or funding channelled through government systems;

(g) Provide support to the Parliament to help it perform its budgetary, legislative, oversight and other tasks adequately, including as these relate to aid effectiveness in Haiti;

(h) Provide appropriate support to the preparations of the forthcoming local, municipal and partial legislative elections.

61. **In particular, the United Nations system is called upon to:**

(a) Play a leading role in providing technical support, through the United Nations country team, in particular UNDP, to make aid coordination mechanisms operational;

(b) Provide the necessary means to the Resident Coordinator structures to ensure collaboration and integration of activities among United Nations entities, and to plan for the possible handing over of some activities carried out by MINUSTAH to the United Nations country team, including in the provinces;

(c) Ensure appropriate back-up by United Nations agencies, funds and programmes to their offices in Haiti to allow for activities in the provinces to be expanded and to further engage with the Haitian private sector;

(d) Develop a consolidation plan and a road map for a phased transfer of tasks from United Nations and other international actors to State institutions, beginning in low-risk departments;

(e) Associate and train civil society groups in technical assistance activities, such as those carried out for disaster preparedness, in order to make them real agents of change and development.

62. **The Group also wishes to draw the attention of the Haitian authorities to the need to:**

(a) Develop tools to monitor and evaluate large-scale Government programmes, such as the President's education programme, in order to steer efforts and ensure accountability;

(b) Continue to pursue legislative reform that will further improve the status of women and monitor the effects of recent progress made in that direction;

(c) Launch a process of reform of public administration aimed at making it more efficient and capable of making a difference to the benefit of the population, including through decentralization, and to seek support from development partners for these efforts;

(d) Take administrative, fiscal and other measures without delay to convince the private sector and foreign investors that Haiti is open for business and willing to create an enabling environment for business expansion and entrepreneurship; this also implies anti-corruption measures and a land reform process that will secure land tenure;

(e) Engage in a dialogue between the Government and the Parliament with regard to the rapid appointment of members of key rule of law institutions and jurisdictions, such as the Constitutional Court, the Permanent Electoral Council and the High Judicial Council in order to make these bodies operational without delay;

(f) Provide these institutions with the administrative and financial means to allow them to perform their tasks adequately and provide for effective independence of the judiciary;

(g) Give a high level of priority to the implementation of the development plan of the Haitian National Police for the period 2012-2016 and continue to seek support from development partners for this plan.

Annex

Programme of the visit of the Ad Hoc Advisory Group to Haiti, 21-24 May 2012

Monday, 24 May

13:15	Arrival at Toussaint Louverture International Airport
14:15	Briefing by Mr. Mariano Fernández, Special Representative of the Secretary-General and Head of MINUSTAH
15:00	Briefing by Mr. Nigel Fisher, Deputy Special Representative of the Secretary-General, Resident Coordinator and Humanitarian Coordinator in Haiti
15:30	United Nations country team exhibition
19:00	Dinner hosted by the Special Representative of the Secretary-General

Tuesday, 25 May

6:30	Visit to North and North-western Departments (by helicopter) • Visit to CODEVI Industrial Park at Ouanaminthe • Visit to the United Nations country team at Cap-Haïtien • Visit to prison in Cap-Haïtien • Meeting with Louis Kebreau, Archbishop of Cap-Haïtien
19:00	Dinner with group of 12 representatives

Wednesday, 26 May

8:00	Visit to Project 16/6 at Champs de Mars (internally displaced persons camp)
10:00	Briefing by representatives of the Ministry of Planning and External Cooperation and UNDP on the new aid coordination architecture
11:00	Meeting with Ms. Josepha Raymond Gauthier, Minister of Planning and External Cooperation
12:00	Working lunch with Ms. Sandra Beauville, Chair of the Presidential Commission of Investment and President of the Chamber of Commerce, and Ms. Jessica Faieta, Senior Country Director, UNDP
14:00	Meeting with President Michel Martelly, Ms. Marie Carmelle Jean-Marie, Minister of Economy and Finance, Ms. Josepha Raymond Gauthier, Minister of Planning and External Cooperation, and Mr. Wilson Laleau, Minister of Trade and Industry as well as advisers to the President
16:30	Meeting with parliamentarians

19:00	Reception hosted by Deputy Special Representative Fisher with civil society representatives

Thursday, 27 May

8:00	Visit to the Police Academy
9:30	Meeting on the rule of law with MINUSTAH and the United Nations country team
11:00	Press conference
12:15	Debriefing with Special Representative Fernández and Deputy Special Representative Fisher
14:30	Departure to New York

United Nations E/2012/88

Economic and Social Council

Distr.: General
24 July 2012
English
Original: Spanish

Substantive session of 2012
New York, 2-27 July 2012
Item 7 (e)
Coordination, programme and other questions: long-term programme of support for Haiti

Letter dated 24 July 2012 from the Permanent Representative of Mexico to the United Nations addressed to the President of the Economic and Social Council

I have the honour to request that Mexico be admitted to membership in the Ad Hoc Advisory Group on Haiti of the Economic and Social Council.

This decision is based on the firm commitment of the Mexican Government to supporting the people and Government of Haiti in its efforts, with the cooperation of the international community, to build the social, political and economic foundations for the sustainable development of that country.

In expressing to you and the members of the Group my country's strong commitment to promoting the objectives of the Ad Hoc Advisory Group, I kindly ask you to have this letter circulated among the members of the Economic and Social Council as a document of the current session.

(*Signed*) Luis Alfonso **de Alba**
Ambassador
Permanent Representative

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